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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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CONTENTS

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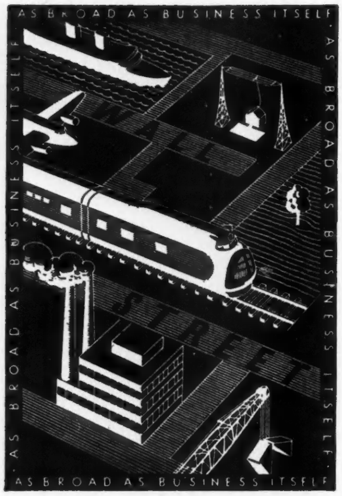
Photo Courtesy U. S. Steel

War and defense mean steel—and lots of it. Completion of present expansion projects will give the United States a capacity of more than 90,000,000 tons of ingots a year. But estimates of 1942 needs now exceed 100,000,000 tons, so more expansion is due. Shades of 1929! In that "boom" year we produced only 56,433,000 tons.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



The Trend of Events

DECIDE NOW . . . Isolationist Senator Vandenberg strives to minimize the danger confronting Great Britain by citing Maritime Commission figures purporting to show that in recent months total ship sinkings have been considerably under the annual rate of 5,000,000 tons claimed by the British. The Commission's chairman replies that these figures are based on "reports" which are not necessarily complete.

For our part, we are fed up with the quibbling, propagandistic approach by both isolationists and interventionists, with the "trial balloon" barrage to which the Administration is subjecting us and with the continuing evasiveness of the President. We are facing the gravest decision in our history. It is time for Mr. Roosevelt to speak out, to put the facts of our situation as fully as possible before the public.

Whatever the precise rate of ship sinkings, it certainly greatly exceeds the rate of current replacements. Does it make sense to hold our aid to a minimum, gambling on just how long it may take Britain to bleed to death? The basic question is not precisely how desperate Britain's position may be next month, but whether doing whatever is necessary to assure her survival—and continuing British-American control of the Atlantic and Pacific oceans—is or is not absolutely vital for us.

How much longer are Americans going to discount the Nazis' openly proclaimed purpose of ruling the world? Yes, it sounds fantastic; but what they have already done seemed equally fantastic—before they did it. Beyond doubt, they will drive hard for the Near East, for all the Iberian Peninsula, for North and West Africa, for Dakar as a base for control of the South Atlantic, for more extensive Axis "cooperation" from France, Japan and Russia. Beyond doubt they are aiming at ultimate acquisition of a vast sea power with which to implement their tremendous land and air forces.

Only amazingly ignorant or naive Americans can doubt the existence of this program of unlimited Nazi conquest or deny that it menaces the vital interests of the United States or believe that Great Britain alone can halt it. This publication believes it is *our* fight, that we should make it while we can still count on a powerful ally and that it would be folly to wait and take our chances, alone, in a largely hostile world.

This calls now for the fullest possible war use of our navy, and for the use of American air power as soon as it can be developed in effective force. It is manifestly impossible to foresee whether employment of an expeditionary land force will ever be necessary or feasible, although it seems improbable from the present perspec-

tive. Should this change, so be it. The challenged security of free America is worth fighting for, at whatever cost, at whatever risk.

INFLATION . . . The recent advance in the average of 28 basic commodities to the highest level in four years, along with a prediction by a Government official that the national debt will rise to $90,000,000,000 and renewed warnings from banking sources that Federal policies on finance are fraught with danger, serve to resurrect that old ogre, inflation. Vivid memories of the price trend in the last World War, too, have led many to believe that there may be no stopping of a runaway price rise.

More or less as they have been doing in recent months, prices in the corresponding period of the World War started upward slowly. The rise gathered speed in 1916 and 1917, however, swept onward in 1918 and could not be checked until two years after the war. When they finally reached a peak in 1920, the cost of living was more than double its pre-war level. The collapse which followed brought a relatively short but most severe depression.

Nothing like the inflation of World War I is likely in the present war. The available controls are both more numerous and more powerful. The new Office of Price Administration & Civilian Supply (organized to stop price increases before they go too far), has shown that no grass will grow under its feet. Price ceilings on iron and steel already have been expanded to 34 consuming points and more are to come. Fifteen other industries are shortly to come under the firm regulatory hands of the OPACS.

Working with the Division of Purchases of the OPM, which buys supplies for the Army and Navy, the OPACS can wield enormous pressure toward stopping price increases. As a matter of fact, price rises, except in import commodities, have not been great, while neither finished goods nor cost of living have advanced much. According to Government figures, living costs in March, 1941, were only 1% above those of the last quarter of 1939 and less than 1½% above March, 1940. And, with the OPACS ready and anxious to prevent sharp price advances, no more than a gradual rise in the general cost of living seems in the cards.

TOO CONSERVATIVE . . . On the echo of the cry for more railroad freight cars to handle the sharp increase in freight traffic and the huge prospective additional advances, comes the outlining by Administration spokesmen of a great expansion plan for the steel industry as a necessary defense move. Evidences grow daily more numerous that our needs for metals, rubber, basic materials, machinery, transportation and production equipment had been underestimated.

The growing freight car shortage, which may bring a complete system of priorities for the inland transportation industries as a result of the shift of tons of freight from water carriers to the railroads, is considered to have been incurred partly because of too conservative estimates of the industry's requirements by private railroad officials.

By contrast, the Administration advocates of expansion were nearer to being right than were the corporation officials on their estimates, but before blame is heaped on anyone's shoulders, the facts should be got straight. At the time the forecasts were being made, there were no public thoughts expressed of an arms program so gigantic as the one which finally developed and is now rapidly moving along. The snowballing arms program, in actuality, accounts for the present pressure for industrial and equipment expansion; nor was its development on the current great scale foreseen at that time either by businessmen or by anyone else, including the Administration.

CONCERNING COMPLACENCY . . . Almost everybody at Washington is busy pleading with the people and with business men to awaken to the staggering enormity of the defense problem and to a realization of the sacrifices it must involve for all. All? Well—not quite all.

In Washington itself it is business as usual, the only difference being that there is more of it. Defense each month adds thousands of new jobholders to the Federal payroll, with no significant transfer of personnel from the swollen "regular" departments and agencies. No pet political projects are "sacrificed." The most onerous tax program in our history is in the offing, but no one in the Administration or Congress steps forward with genuine leadership for retrenchment in non-essential, non-defense spending.

And with the labor unions, of course, it is also business as usual and much more of it. Get it while the getting is good. It is not enough to collect a 50 per cent premium for time over 40 hours a week, as prescribed by foolish and outmoded Federal law. Hijack higher wage rates per hour besides. What difference does it make that the Government—that's the American people—foots the bill directly or indirectly?

And whose complacency was it that resulted—until last week—in the Administration's failure to give priority to heavy bombers in its over-all defense planning? Without any inside information, this publication pointed out the obvious months ago when it remarked that Britain's defense and ours would be most effectively served if we put maximum emphasis on production of heavy bombers, merchant ships and light naval craft, since we could not train and equip a really good land army in less than two years nor get our two-ocean Navy in less than five or six years.

We agree that there is still too much complacency on the part of the public at large but this is far less dangerous than complacency among our Federal leaders. And we submit that there is also too much complacency among these officials—not excluding the President. It is a complacency in action and policy, rather than in words.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 118. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, May 12, 1941.

Wisest Investment Policy Today

The market's upside performance thus far lacks vigor and persistence. We would not expand equity commitments for investment or trading at present. Investors needing to employ funds for income should look mainly to senior issues.

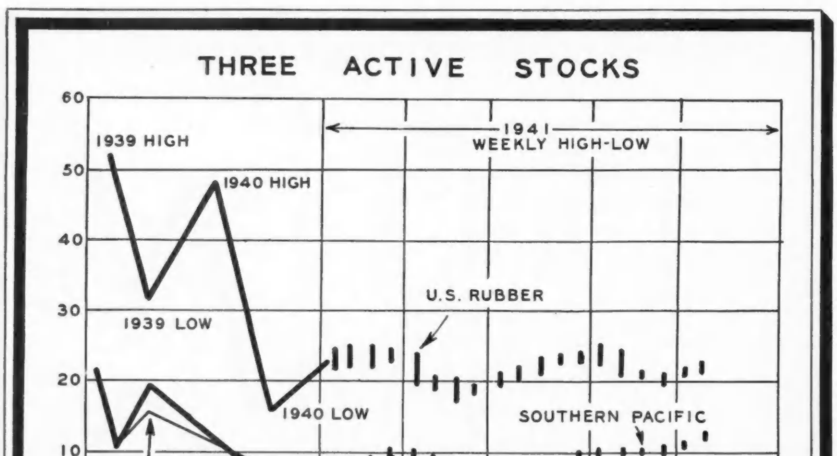
BY A. T. MILLER

In movement of the averages this is still a "wait and see" market. For about twelve weeks since February 14 the Dow-Jones industrial average has fluctuated within the approximate range 124-115. Although it advanced nearly 2 points last week, it nevertheless remains considerably closer to the year's low made on May 1 than to the early April rally high. Over the same period the range of our weekly index of 290 issues has been between a high of 51.9 and low of 46.3.

Although the technical odds appear to favor additional near-term rally in what seems to be an interlude of sorts between major war events, to those optimistically inclined the market's failure to follow through on the occasional good days is disconcerting.

Moreover, during the fortnight since our last analysis was written, number of individual equities making new lows for the year has continued to exceed number making new highs. The same is true among the group indexes which this publication compiles on a weekly basis. Last week, for instance, new lows for the year or longer —longer in the majority of cases—were made by our indexes for the air lines, finance companies, public utilities, liquors and tobaccos. New highs for the year were made by our railroad and petroleum groups.

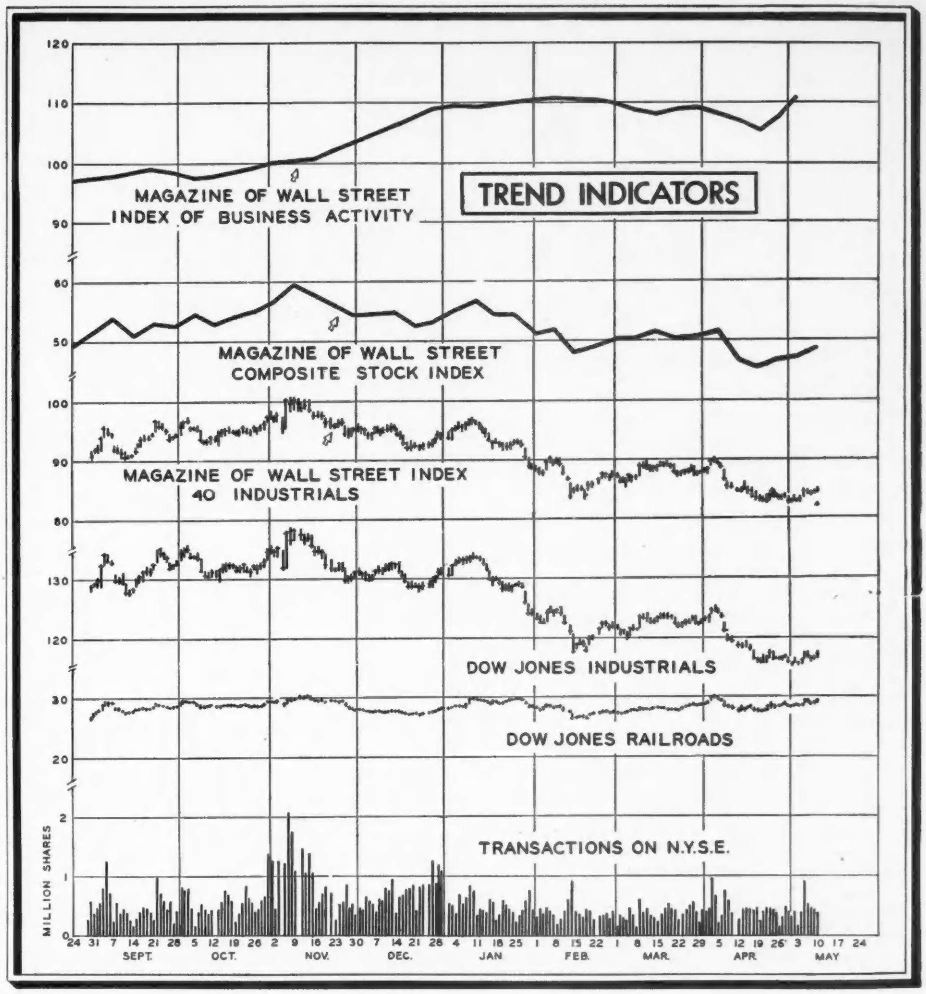
Containing a slighter greater number of issues, as well as being compiled on a daily basis, the Dow-Jones rail average, although at a new rally high at the close of last week, is still a fraction below its best level of early April. Favorable action of the rail group has been psychologically and technically important. With only two major groups—rails and oils—offering anything in the way of bullish leadership, faltering by either would cast a damper on the none too confident spirit of speculation now existing.



It is our current impression that the rails *are* beginning to meet with somewhat greater resistance, although the evidence available over the past few sessions is no more than tentative. Perhaps it is significant, however, that within recent days the financial community has begun to put a little less emphasis on glowing figures of car loadings and earnings and for the first time to begin to give passing thought to such contingencies as a car shortage later in the year, a transportation crisis and the threat of possible Government operation.

A year ago this week the German armies swept through the Low Countries and decisively broke the back of French resistance. On Saturday, May 11, 1940, our weekly index stood

at 61.3. A week later is had nose-dived to 47.7 —very close to the level now prevailing — or a decline of 22 per cent. By the time, early in June, that the French debacle was complete and the outlook for Britain was at its blackest, the market had extended the initial week's collapse by only 2.4 points or by only some 5 per cent.



During this crucial intervening year — first rallying in an irregular performance through the summer and early autumn and later giving up the greater part of the intermediate recovery—the market averages have experienced relatively small net change. It is self-evident that a considerably increased immunity to war shocks has been developed, but on the other hand the twelve months since the fall of France have propelled the United States at breakneck speed into a war-economy with all that this means in multiplying Government controls, profit restrictions and higher taxes.

So, while the market as a whole has not yet broken last spring's lows and may or may not do so in coming weeks, it has nevertheless lost considerable ground *in relation to business volume and corporate earnings.* Industrial volume is at all-time highs. Composite earning power of the larger industrial corporations—on present tax rates—is at the highest level since 1929.

Market prices reflect both the low capitalization of current earnings that is normal in a war period and the probability that aggregate corporate earnings will be restricted to present, or lower levels, by future increases in taxes. There is, of course, no use looking to the trend of business volume or earnings—normally the controlling elements in equity valuations—as a source of major change for the better in the movement of the averages.

From here on total business volume can expand only gradually, as industrial capacity is increased, and volume gains in the defense industries must increasingly be at the expense of other industries, especially consumers' durable goods industries. Outlook for earnings gains, on the average, is equally dubious. What we are emphasizing is that any major improvement in the market awaits the development of a psychology under which investors and traders are willing to put a higher valuation on any given level of earnings.

Under what conditions could this more confident psychology develop? It could develop out of spectacular war reverses for the Germans. Or it could develop out of a consensus that the worst contingencies of Britain's war outlook, of full American involvement in the war and of this year's tax increases had been more than adequately discounted. We think it much more likely to develop ultimately out of some combination of the latter factors than out of decisive 1941 military changes.

Meanwhile, as this is written, Washington observers expect imminent action by the President which will take us into an undeclared war at least to the extent of Naval action. We do not expect that of itself to shock the stock market, but its implications as regards broadening Federal controls and its effect upon the tax psychology of Congress are not to be lightly dismissed. Pending development of a more positive basis for bullishness, we advise against expanding holdings of common stocks. Where investors find themselves under pressure to put idle funds to work, we believe the most suitable mediums are to be found mainly among medium-grade bonds and preferred stocks. After providing for minimum income needs, however, a conservative liquidity should be maintained.—Monday, May 12.

Industrial Variations Under War Conditions

Jones & Laughlin Steel Co. Photo

BY WARD GATES

A comparison of the important swings of individual and group equity prices since March 10, 1937, with the swings from 1908 to 1918, reveal many parallels and many divergencies, in so far as the influence of war upon stock values is concerned. World War I broke out in August, 1914; World War II started on September 1, 1939. Both wars followed a long period of declining and gyrating business and market movements. In this country the market was still reeling in 1914 from the upsets resulting from the "big stick" anti-trust policies of T. R. Roosevelt, and had been unable to make any sustained progress since 1908. On September 1, 1939, the various markets faced an uninspiring long term background. There had been the complete collapse of 1929-1932, the second short but drastic downturn from March, 1937, to April, 1938, and a third smaller but still vicious spiral downward from November, 1938, into April, 1939.

By August, 1939, the general market had recovered about half of the ground lost in the third slump, but at this point there set in a technical reaction that wiped out more than half of these gains. Evidently the initial shock of the war had been fully discounted by the August reaction, and the reaction that followed the actual declaration of war lasted only a few hours. Then came a wild scramble for industrial stocks and commodities of all sorts. Bethlehem Steel and other "war babies" doubled in prices within two short weeks. Housewives quickly bought up all available sugar and the grocery stores were cleaned out of this commodity. The public had not forgotten its lesson in economics—that war is essentially inflationary, but it nevertheless soon found out that something was wrong about this war. True, the general market managed to make some slight further progress until late in October, and commodities kept climbing at a slackened pace until December, and some special industrial equities were in keen demand until April, 1940, but a reaction, of cyclical intensity, set in within an amazingly short time from the commencement of the war.

From September and October, 1939, until April, 1940, with the market continuing to experience a series of sinking spells, volume continued to shrink. During this period the war gave the appearance of a stalemate. Then appeared the real reason for the peculiar action, although, of course, the failure of the market to better the tops of November, 1938, had signalled caution. With the series of German victories the desire to sell became a rout, with the big bulk of the losses occurring in a couple of weeks during May. Then, midway between the lows of March, 1938, and April, 1939, the market developed an apparent ability to withstand emotional shocks. The exact lows were reported on the day that Mussolini declared war on the Allies, but these quotations were only fractions below the level reached three weeks earlier. The lowest points for the general market were reached n the week of June 8.

Despite the general beliet that England would be quickly overrun, the markets held firm and were even able to stage an impressive recovery until November 9, 1940. This was "election week." Shortly after election it became apparent that large investors were liquidating their investments on an increasing scale. Since election there have been four separate downturns in the market, with temporary bottoms being formed in November, December and February. The last downturn dates from April 5. Against this background of lower stock prices, however, must be recorded the action of commodity prices, particularly wheat, cotton and rubber. Despite the fact that industrial commodities, such as steel and copper, have been frozen by government controls, both spot and future commodity indexes have climbed so vigorously since the middle of last February that they are now higher than the level reached in the first wave of war buying that terminated in December, 1939.

With this general background in mind, the investor may be able more clearly to understand the important variations that have occurred in the various industries since the war. These variations, however, should also

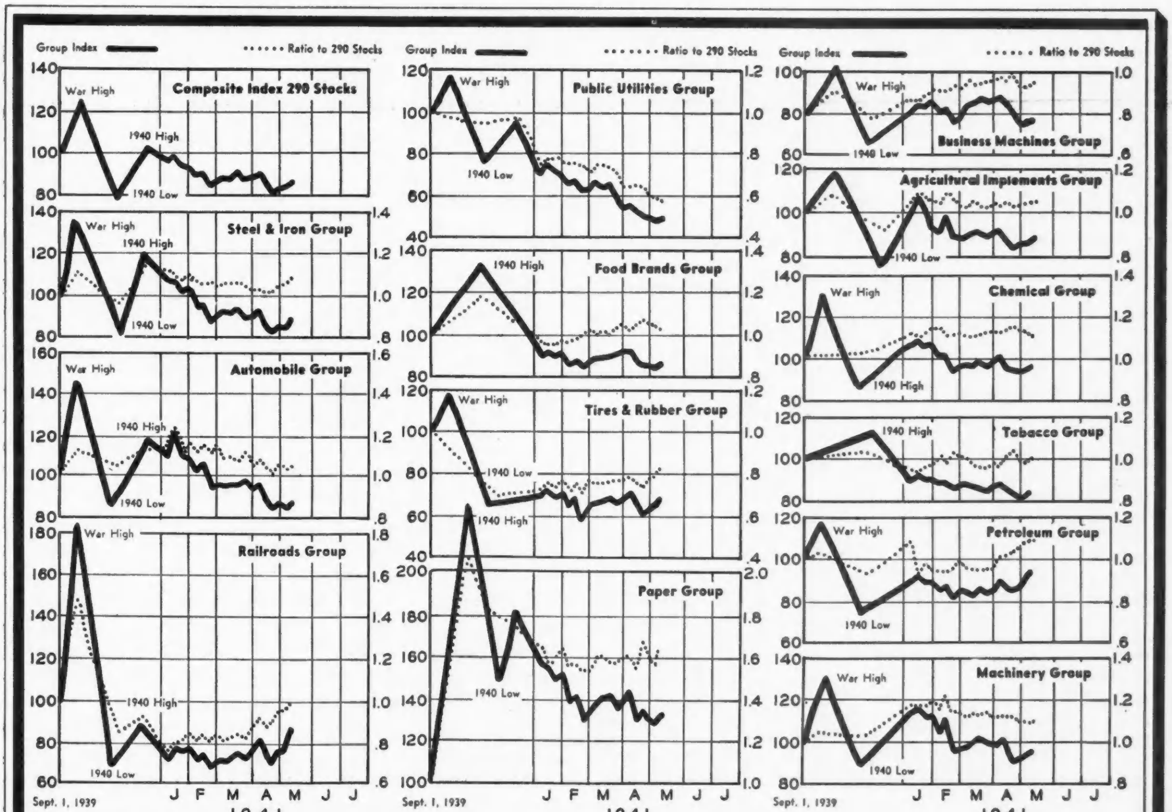
be measured against the changes in the combined index, not only from the beginning of the war, but also from the last major top. The high and low water marks left by the ebb and flow of the tides since the March, 1937, recovery crest can therefore prove helpful. The line of recovery tops in the combined index has been dropping periodically from 122 in March, 1937, to 77.8 in November, 1938, 72 in November, 1939, 67.1 in April, 1940, 59.8 in November, 1940, and 51.9 in April, 1941, with the extreme lows being reached at 59.1 in November, 1937, 44.2 in March, 1938, 56.7 in April, 1939, 45.3 in June, 1940, and 48.2 in February, 1941. On May 3 the combined index stood at 47—only slightly above the lows of 1938 and 1940 and also comparing with the lows of 1935. It is well worth observing that as regards both extent and duration, the long downward cycles since March, 1937, October, 1939, and November, 1940, have been so drastic that it would seem prudent to be on the watch during the next few weeks for any signs of vigorous reversal.

Group Actions

Agricultural implements have been hard hit. The high water levels have been declining from 253.3 in August, 1937, to 210.6 in November, 1938, 119.9 in October, 1939, 103.6 in April, 1940, 92.5 in November, 1940, and 80.7 in April, 1941. The line of bottoms has also been giving way: 119.5 in November, 1937, 95.8 in March, 1938; 81.4 in April, 1939; and 63.6 in June, 1940. On May 3 the group stood at 74.3, and at long last is giving some indications of doing better than the general market.

The group data covering the aircraft and airline stocks are not comparable over an extended period, due to changes in the composition of the averages. However, both groups are dynamic and both have done much better than the market in recent years. Some of the more prominent aircraft stocks made their lowest bottom in October and November, 1937—some five months ahead of the general market—and the composite average for this group was only fractionally lower in March, 1938. From 75.2 at that time to 233.6 in April, 1940, the average for the two groups showed a rise of over 200 per cent in two years to a figure 31 per cent above the 1937 top. From that peak both groups have experienced a major downturn and they have not done as well as the market. Since the downturn from last April, however, the aircraft group has rallied in the past few days more vigorously than the market, and its tendency to bottom ahead of the general market is worth consideration.

The amusement group did very poorly from March, 1937, when it stood at 77.8, until June, 1940, when it reached 15.8. Since that time, however, it has acted much better than the general market. It rallied to 22.4 in November, 1940, declined only slightly to 21.3 in February, 1941, recovered to 23.0 in April, and despite the general reaction in recent weeks stood at 21.2 on May 3—approximately parallel with the February bottom. The high water marks in the downward cycle were 30.3 in Otcober, 1939, and 28.8 in April, 1940.

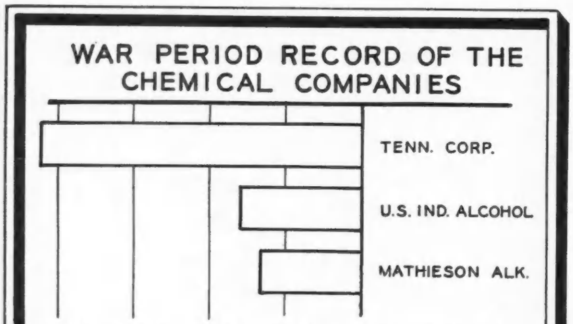


The automobile accessory group has been outstandingly strong, compared with the combined index. It made its recovery peak at 186.9 in March, 1937, and the lowest point was reached in the Spring of 1938 at 44.3, but since that time the line of periodical tops has been advancing —91.0 in November, 1938; 97.2 in October, 1939; and 98.8 in November, 1940. The line of bottoms has also shown improvement—55.2 in April, 1939; 64.7 in June, 1940; and 77.6 in February, 1941. Since then the group has not done well; the April rally fell short at 84.4 and it turned quite weak in the subsequent reaction, reaching 75.9 on May 3.

The automobile group has been consistently weak. Its most vigorous recovery was in 1938, following the sharp drop from 24.9 in March, 1937, to 7.9 in April, 1938. The 1939 rally to 13.2 failed to equal the 14.8 rally level of November, 1938; the rise in 1940 stopped at 11.1, and the rally from 8.5 in February, 1941, to 8.7 in April was outstandingly weak. On May 3 this group reached 7.8, which is almost identical with the lowest prices touched in 1938 and in June, 1940.

In April, 1941, the baking group touched 10.7 in a vigorous rally from the February level of 8.3. These prices compared with 10.0 in November, 1940, 7.9 the previous June, 13.1 in October, 1939, 11.5 in April, 1939, and 28.5 in March, 1937. The April reaction brought the group back, however, to 8.3 on May 3.

The downturns in the business machines group have been much sharper than the rallies. From 308.6 in March, 1937, to 120.2 in March, 1938, the best rally was the first which reached 194.9 in November, 1938. From 121.9 in April, 1939, this average rallied to only 131.3 in October, 1939, and then dropped to 75.1 in June, 1940, The May 3 average was 88.2.



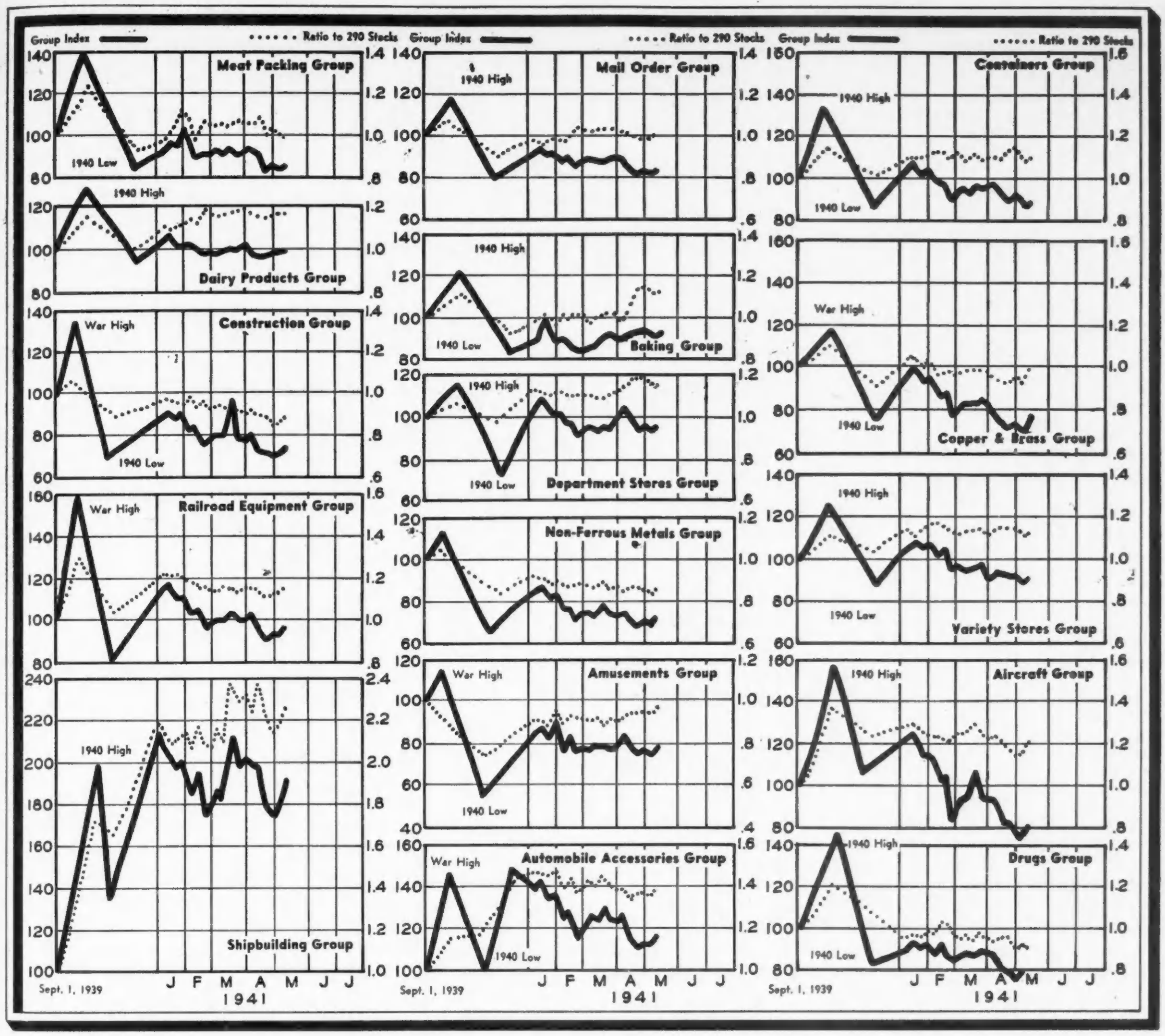
The chemical stocks have not been consistent. Their performance has been both better and worse than the general market. Following the downturn to 113.0 in April, 1938, from the recovery peak of 247.7, this group in 1939 reached 187.2 and bettered the 1938 rally top of 170.8. Since September, 1940, however, the group has met with persistent liquidation, it rallied only moderately from February to April of this year, and at 136.4 on May 3 compared with 123.7 in April, 1939, and 120.5 in June, 1940. The comparative action of eight chemical stocks has been as follows: Allied Chemical, from 258 in 1937 to 124 in March, 1938; price September 1, 1939, subsequent high 200 reached on September 11, 1939; recent price of 144 showed a loss of 14 points since the war. Commercial Solvents, 21, in 1937; 1938 low 6; September 1, 1939, 9; reached 16⅝ in April, 1940, against 16 on previous September 11; recent low of 8⅜ showed a war loss of one-half point. Du Pont, from 180 to 90, stood at 155 on September 1, 1939, jumped to 188 in four days and reached 189 in April, 1940; recent 138 showed war loss of 17 points. Liquid Carbonic fell from 27 to 12, rose from 14 on September 1, 1939, to 17 on the 7th and hit 18 in March, 1940; recent low of 24 represented a war loss of 1¼ points. Against the 1937-8 range of 42-20, Mathieson Alkali jumped from 21 on September 1 to 37 on September 13; the 1941 low of 24 showed a war gain of 3 points. Tennessee Corporation stood at 5 on September 1, 1939, jumped to 9⅛ on the 12th and reached 9¼ on December 26, 1939; recent low of 7⅜ showed a plus of 2/8 since the war; 1937-8 range, 15⅜-3⅞. Union Carbide, with 1937-8 range of 111-57, soared from 73 to 94 during the war excitement, but recently sold 13½ points below the initial war price. U. S. Industrial Alcohol at the 1941 worst was up 5 points from the first war price of 15; highest subsequent price of 29⅜ on September 12, 1939, compared with 1937-8 range of 44-13.

Foods and Mailorder Shares Better Then Average

The construction industry has not been popular in recent years. No rally has penetrated a previous high water mark, and the bottoms have been dropping. The rally from February to April last was a dull affair, and the May 3 level of 20.8 was only slightly above the lowest figure of 19.3, reached in June, 1940.

Owing to a change in the composition of the averages, no long term comparison of the container stocks can be made. The bottom of 165.0 for April, 1939, was below the March, 1938, level of 174, and the rally to 232.4 in October, 1939, also failed to equal the 1938 rally of 245.0, but this group did establish a higher water mark at 251.1 in April, 1940. It touched 168.6 in June, 1940, 211.6 the next November, and on May 3, 1941, was down to 171.0.

The copper and brass equities since April, 1940, have not done as well as the general market. They dropped sharply from 217.3 in March, 1937, to 60.0 in March, 1938. Since then the rallies have been diminishing, 129.6 in 1938, 125.6 in 1939, 103.6 in April, 1940, and 99.3 in November, 1940. The bottoms have been holding well, however, standing at 71.2 in April, 1939, and 68.2 in June, 1940, but on May 3, 1941, they again touched 68.8, following a weak rally from February to April. The



action of the non-ferrous metal stocks has shown no significant variation from that of the copper and brass group.

The relative stability of the dairy group has enabled this group to act better on the declines that have characterized the general market in recent years. The group also did better in 1939 at 29.8 than in the 1938 rally of 25.9—and it also reached a still higher figure of 33.6 in April, 1940, but since then the rallies have lacked drive and on May 3, 1941, these stocks averaged 25.9—or moderately above the 23.1, 23.8 and 24.7 bottoms of 1938, 1939 and 1940.

The department stores since last November have fared somewhat better than the general average, even though every completed rally has fallen short of the previous effort: 23.3 in 1939; 20.8 in April, 1940; 19.9 the next November, and 18.7 in April, 1941. However, the bottoms have been rising erratically since the 12.2 figure in March, 1938, and the May 3 index of 17.0 compared with 16.7 in February and with 13.8 in June, 1940.

Except that the rallies in public utilities have been wider, particularly from June to November, 1940, and except for a brief flare-up in a couple of sensitive drug stocks in April, 1940, the action of both these groups has been relatively parallel. Both have shown more weakness than strength. On May 3 the drugs at 31.4 and the utilities at 25.0 compared with their 1937 tops of 108.8 and 114.9, respectively. Present prices are the lowest in years.

Every swing in the machinery group has registered lower tops—211.9 in 1937; 133.9 in November, 1938; 125.8 in 1939; 115.8 and 110.6 in April and November, 1940; and 97.6 in April, 1941. Buying support has come in as each swing approached the 1938 bottom of 77.6, and the May 3 figure of 88.1 was well above the 81 level of June, 1940.

The food brands and the mail order stocks have done much better than the market during most of the cycle. The former dropped from 71.9 in March, 1937, to 33.3 in March, 1938; and the mail order from 104.2 to 49.1. Both groups did better in April, 1940, than in the two previous years, with the food brands reaching a new high at 117.8, and the mail orders hitting 94.9. Since then the rallies have fallen short, with the food series standing at 75.9 on May 3 and the mail orders at 64.3. The latter rallied more strongly from February to April than the foods. Neither group (*Please turn to page* 160)

A Complete Analysis of the 1941 Tax Program

BY JOHN C. CRESSWILL

BARRING early assumption of a full belligerent status by this country, Congress will be in no hurry to shape the final details of the pending Federal tax program. There is no pressure for urgent action because collections under the higher individual and corporate income levies would not be made before next March.

But if because of uncertainty as to the *exact* impact of the coming levies you complacently assume there is nothing you need to do now, or can do, to adjust either your investment holdings or your family budget to the coming changes, you are badly mistaken.

For one thing, objective contemplation of the controlling political and fiscal factors must lead to the conclusion that the levies to be ultimately enacted can differ only in relatively moderate degree from the suggested levies now receiving the consideration of Congress. For another thing, you can rest assured that by the time you know every detail of the tax law a considerable part of the readjustment of individual security values to the new tax status will already have taken place.

The agreed goal is approximately $3,500,000,000 a year of additional Federal revenue, aside from the increase that present taxes will produce out of record-breaking business volume. What are the most likely revenue sources to be tapped?

In the first place, we know all too well that Congress can be relied on to shape any tax program with the political objective of directly hitting the fewest possible number of voters. In the second place, we know that any tax program which would significantly decrease the purchasing power of the masses of the people would definitely conflict with basic New Deal economic and social concepts. The New Deal believes in "prosperity from the bottom," higher purchasing power for the low income families which make up a large majority of all American families, and in a partial redistribution of the national income through taxes stiff enough to reduce sharply the "excessive and non-productive annual savings" of the middle class and the well-to-do.

It follows, therefore, that the $3,500,000,000 will be raised chiefly from the following: (1) the 6,500,000 middle class or well-to-do people now on the Federal income tax rolls, leaving some 44,000,000 other gainfully occupied persons exempt from direct Federal income levy; (2) corporations; (3) estate taxes and excise taxes of politically acceptable type, especially such as those on liquor, automobiles, tobacco, gasoline.

The apportionment suggested by the Treasury calls for extracting approximately $1,500,000,000 more from present personal income taxpayers; about $1,000,000,000 more from corporations; about $350,000,000 from estate and gift taxes; and balance of $650,000,000 from excise levies, with beverages, tobacco and gasoline accounting for nearly 80 per cent of the latter total.

Bear in mind that all members of the House will be up for re-election next year, the year in which the impact of higher income taxes would be felt. Of all taxes—excepting sales taxes on "the poor man's bread and meat"—the personal income tax contains the most political dynamite. True, it is paid by a minority of

voters, but after all there are 6,500,000 of them. There is much less political dynamite in selective excise taxes on non-essentials. There is practically no political dynamite in corporation and estate taxes.

Therefore—again assuming that this particular tax bill will be formulated to finance our armament program and not our full participation in the war—the following predictions involve very small risk of error:

(1) Congress will *not* raise personal income taxes by $1,500,000,000. It is probable that the maximum increase will not exceed $1,000,000,000.

(2) Congress will be inclined to revise upward the Treasury's estimate of 1942 yield from present taxes and to reduce the $3,500,000,000 objective of the pending tax program in some proportion to such revision. It will have plausible reason for so doing in that the Treasury's latest estimates of yield from existing taxes represent a substantial upward revision of similar estimates made by the Treasury only last January.

(3) If anything is done to make up part or all of what is cut from the Treasury's $1,500,000,000 personal income tax proposal, it will be made up chiefly from upward revision of pending Treasury proposals as to corporation and estate taxes and secondarily from stiffer, but selective, excise taxes. Any upping of the Treasury's corporation tax program will center on excess profits taxes—"take the profits out of war business"—and the "normal" corporate income tax is virtually certain to be a maximum of 30 per cent.

What are the implications of this tax program in relation to the business outlook, the national income and the threat of inflation of living costs? It should be evident almost at a glance that it will make no significant dent in *total* demand for consumer goods, that it will not prevent further sharp rise in the dollar figure of national income and that of itself it will have very scant bearing one way or the other upon the prospect of an inflation trend in commodity prices and the cost of living.

From present indications the national income this year may be around $82,000,000,000 or nearly $10,000,000,000 more than in 1940; and, with prices pointing up, the dollar total of 1942 national income very conceivably may be $8,000,000,000 to $10,000,000,000 more than for 1941. Consider these figures in relation to a proposed $3,500,000,000 tax bill under which at most probably no more than $2,000,000,000 would be raised from personal income and excise taxes which directly reduce consumer buying power.

And in whose hands is the increased purchasing power which, expanding in excessive relation to the potential supply of consumer goods, threatens to bring on a progressive inflation? The bulk of it has gone to, and will continue to go to, wage and salary workers who are not subject to Federal income taxes and whose increased buying power can be reduced in only relatively modest degree by the presently proposed schedules of higher excise taxes on non-essentials.

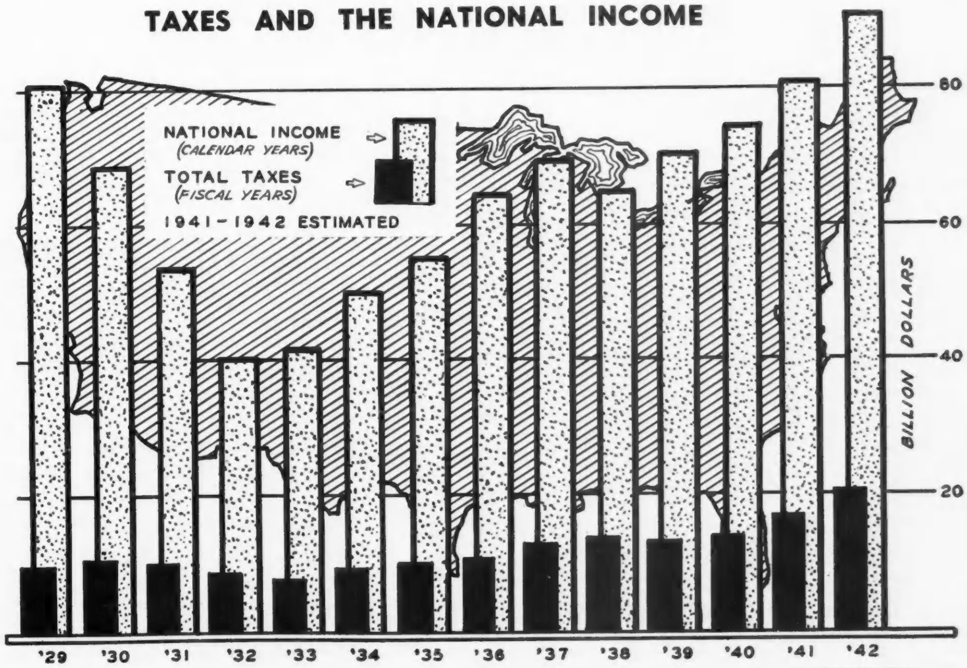
Budgets May Need Adjusting

Suppose the 6,500,000 Federal income taxpayers are called on for an additional $1,000,000,000 a year. In most individual cases the percentage increase will be onerous enough to be quite definitely felt. If, for example, you are paying a $528 tax on a 1940 net income of $10,000 and have to pay somewhere between $1,400 and $1,600 in 1942 on a $10,000 1941 income, you will inevitably have to make some considerable adjustments in your budgeting.

But in the aggregate there has, of course, been some increase in the income of the 6,500,000 who pay the Federal income tax and there will be at least some additional increment. Thus some part of the added load will be met out of increased income. Another part will be met out of reduction in current rate of savings accumulation. The remainder will come out of curtailed buying of non-essential consumer goods or services.

How these proportions will work out in national aggregate is beyond calculation, but at a rough guess the writer doubts that the reduction in consumer spending among this minority of income recipients will exceed $500,000,000 a year at most. This is small relative to the increase, and prospective further increase, in incomes

TAXES AND THE NATIONAL INCOME



of the 44,000,000 or more who pay no income taxes. Moreover, any resultant curtailment of spending by the income taxpayers would center chiefly on automobile and other consumers' durable goods in which coming scarcity is certain anyway.

Looking ahead, however, it is highly probable that the purchasing power of a large majority of all families will run a losing race with an inflating cost of living. This is to say that, while dollar national income will rise further, the actual living standard on an average has probably now advanced about as high as it can go unless and until facilities for the production of consumer goods can be substantially expanded. As armament work will have first call for a long time to come on machine tools, key materials and skilled labor, it is impossible to see how consumer goods producing facilities can be expanded over the next year or two.

Hence, as in all countries in which a major proportion of producing resources has had to be diverted to arms output, some degree of decline in the living standard appears inevitable. In this, taxes are only one part of the story and not yet a big part.

PART II

Effects of the 1941 tax program will vary broadly as to individual types of industries. Roughly, three classifications may be formed: those industries which are by nature fairly stable and would be hard hit by increased normal taxes, even without the added burden of larger excess profits taxes; those industries which in addition to being affected by higher normal income taxes and increased excess profits taxes will also suffer from higher excise taxes or other "nuisance-type" levies; and those industries which will pay tremendous taxes but which will show relatively favorable earnings because of particular benefits from the defense program.

Utilities are one of the best examples of industries in the first category; through strict regulation they are virtually prohibited from raising rates and thus have no escape from higher taxes and rising costs. Last year the industry was fortunate enough to avoid large excess profits taxes because of its high invested capital base. Excess profits taxation may be so revised this year, however, as to affect a much larger percentage of existing utility companies. For example, in line with tentative present proposals, the larger utilities would find an allowance of only 4% on all above $20,000,000 of their invested capital, and under the alternative way of obtaining credit, an allowance of only 75% of the average earnings base period 1936-39. With an invested capital of $100,000,000, the suggested sliding scale would permit an excess profits tax credit of $3,395,000, while under the present law the credit would amount to $8,000,000.

Another major industry certain to suffer in unusual degree from the forthcoming higher tax base is foods, though there is much more flexibility in the retail price structure than in the case of utilities and the relative squeeze, therefore, is likely to be much smaller. Nevertheless, the estimated 10% advance in this industry's volume over that of last year is likely to be insufficient to counterbalance added taxes, with a small net income decrease likely to be reported for 1941. Retail trade, in its various categories, such as department stores,

Measuring the 1941 Tax

Proposed 1941 Taxes Applied to 1940 Earnings

Common Stocks	1940 Per Share Earnings (Actual)	Approx. 1940 Per Share Earnings Adjusted to Proposed 1941 Taxes
Alpha Portland Cement	$1.44	$1.15
American Brake Shoe & Foundry	3.49	2.70
American Can	5.88	4.90
American Chicle	8.42	7.60
American Locomotive	0.50	0.20
American Rolling Mill	1.96	1.15
American Snuff	2.67	2.35
Babcock & Wilcox	5.34	4.50
Bethlehem Steel	14.04	10.00
Borg-Warner	2.88	2.50
Bullard Company	6.15	4.20
Briggs Manufacturing	3.16	2.70
Celanese Corporation	3.39	2.80
Chrysler Corporation	8.69	7.50
Consolidated Edison	2.22	1.90
Continental Can	2.82	2.20
Eastman Kodak	7.96	6.75
Eaton Manufacturing	4.26	3.60
Electric Auto-Lite	5.01	4.25
Ex-Cell-O Corporation	4.99	3.35
General Electric	1.95	1.45
General Motors	4.32	3.65
Hercules Powder	4.01	3.50
Inland Steel	8.87	6.50
Johns-Manville	6.35	5.10
Kresge (S. S.)	1.83	1.60
Kroger Grocery	2.49	2.25
Liggett & Myers "B"	6.02	5.00

Common Stocks	1940 Per Share Earnings (Actual)	Approx. 1940 Per Share Earnings Adjusted to Proposed 1941 Taxes
Lockheed Aircraft	$3.17	$2.65
Monarch Machine Tool	5.63	4.25
Monsanto Chemical	*4.26	3.50
Montgomery Ward	†4.14	†3.50
National Acme	4.40	3.15
National Biscuit	1.50	1.30
National Steel	6.83	5.50
New York Shipbuilding	‡4.54	‡3.45
North American Aviation	2.06	1.60
Pennsylvania Railroad	3.51	3.20
Republic Steel	3.30	2.40
Reynolds Tobacco "B"	2.55	2.20
Safeway Stores	4.76	4.05
St. Joseph Lead	2.62	2.25
Sears, Roebuck	†6.32	†5.50
Standard Brands	0.71	0.65
Standard Oil of Ohio	7.44	6.25
Thompson Products	5.17	4.25
Timken Roller Bearing	3.72	3.25
Union Bag & Paper	1.68	1.30
United Drug	0.82	0.72
United States Gypsum	5.44	4.55
United States Rubber	3.58	2.25
United States Steel	8.84	7.00
Westinghouse Air Brake	1.76	1.50
Westinghouse Electric	7.10	6.25
Woolworth	**2.48	**2.15

* Including $270,375 dividend received from British subsidiary; excluding this, earnings per share would have equaled $4.04. † Fiscal year ended Jan. 31, 1941. ‡ On combined participating and founders shares. ** Excluding the company's portion of undistributed income of the British subsidiary, as well as unrealized portion of net dividends of German subsidiary.

restaurants, drugs, groceries, variety stores, mail order, apparel, textiles, shoes, etc., is another major industry likely to be severely affected in spite of the fact that national income now is record-breaking—above the levels even of 1929. Many units in this field will be sharply affected by increased taxes, which are likely (along with relative rigidity of retail prices, higher labor costs, effect of priorities in some lines and related factors) to bring a profit aggregate this year under that of 1940.

A number of other industries may be included in the classification of exceptional vulnerability to greater taxes, including producers of soap and vegetable oil, cosmetics, gold mining, finance, household products, containers, automobiles, and residential building. The last five industries are outstanding defense program "casualties" in any event, since defense program needs have resulted in priorities, which force the production of these industries into the background. Automotive production, as scheduled for 1942, for example, is to be cut 20% from the 1941 totals, with industry spokesmen freely forecasting that the final reduction will be much larger. Gold mining (and silver mining) are in a comparatively unfavorable spot; impact of higher taxes will be severe because of the likelihood of a constant selling price, as against enlarged labor and equipment costs.

Certain industries will suffer particularly from an attack on two flanks, larger normal Federal corporate and excess profits taxes, as well as excise taxes and other "nuisance-type" levies. Outstanding examples in this classification are the alcoholic beverage and the tobacco industry, including cigarettes, cigars and processed tobacco. The luxury and semi-luxury type foods, such as soft drinks, chewing gum, candy and other confections—as well as the amusement industry—will come in for particular attention, too. Cameras, watches, furs and luggage are other industries with no present Federal excise tax which are likely to be included for such taxation this year.

Broadened Excise Taxes

Character and scope of the proposed new excise taxes and the industries concerned may be ascertained from the following: autos and accessories an increase to 7% from 3½%, raising the income from such taxation by $78,000,000; bank checks, not now taxed, 2 cents a check, return $56,000,000; cigarettes from $3.25 per 1,000 to $4 per 1,000, added return $125,000,000; cigars, from $2 per 1,000 to $4 per 1,000, added return $75,000,000; clocks and watches, not now taxed, 10%, return $10,000,000; distilled spirits, from $3 a gallon to $4 a gallon, added return $135,000,000; beer, from $6 a barrel to $7 a barrel, added return $55,000,000; bowling alleys and pool tables, not now taxed, $15 per unit, return $3,400,000; furs, not now taxed, 10% of retail price, return $9,000,000; luggage, not now taxed, 10%, return $5,600,000; motion picture admissions, from one cent for each 10 cents over 20 cents to one cent for each 10 cents over nine cents, added return $55,000,000; refrigerators (mechanical), from 5½% to 10%, added return, $9,800,000; gasoline, from 1½ cents a gallon to 2½ cents a gallon, added return $255,000,000; photographic supplies, not now taxed, 10%, return $15,000,000; passenger transport tickets, not now taxed, 5%, return $37,000,000; radio set components, from 5½% to 10%, added return $6,000,000; telephone bills, not now taxed, 5%, return $28,000,000; telephone, cable and other communications, miscellaneous rises, $40,000,000 return; tires and tubes from 2½ cents and 4½ cents per unit to 5 cents and 9 cents per unit, added return $52,000,000.

The above are by no means all the industries likely to be covered by excise taxes; others are under consideration, including wines, cosmetics, jewelry, musical instruments, matches, playing cards, safe deposit boxes, coffee, cocoa, sugar, natural gas, fuel oil, pari-mutuels, yachts, airplanes, autos (extra blanket tax of 5 for privately-owned car), vending machines, electric light bulbs, motion picture rentals, etc. Liquors, tobaccos and gasoline, now by far the biggest yielders of excise taxes, will be more thoroughly milked, while the soft drink industry will come in for a very heavy contribution of about $132,000,000, as now planned. This industry, not now taxed, may have to undergo the burden of a one-cent-per-bottle or equivalent tax. Figured on the basis of no change in purchasing power, this would mean a reduction of about a quarter in consumption of soft drinks; higher buying power, of course, will carry total sales far above 1940 this year, but double-barreled taxation points to reduced earnings in this field.

In the favored category from the standpoint of withstanding the adverse effect of greater taxes are those industries directly or indirectly benefiting from the armament program. For the most part these industries will report larger earnings if they can maintain unit profit margins great enough to counterbalance higher taxes.

Representative List of Companies Likely to Earn More in 1941 Than in 1940, Despite Large Tax Increases

Allegheny Ludlum Steel	Mack Trucks
American Car & Foundry	Mesta Machine
American Locomotive	McWilliams Dredging
Atchison, Topeka & S. F.	New York Central
Atlantic Coast Line	N. Y., Chicago & St. Louis
Atlas Powder	New York Shipbuilding
Baldwin Locomotive	Pennsylvania R.R.
Bath Iron Works	Phillips Petroleum
Bell Aircraft	Raymond Concrete Pile
Boeing	Rustless Iron & Steel
Curtiss-Wright	Savage Arms
Crucible Steel	Southern Pacific
Douglas Aircraft	Southern Ry.
Gen. Steel Castings	United Aircraft
Great Western Sugar	U. S. Steel
Illinois Central	Wheeling Steel
Jones & Laughlin	White Motor
Lockheed	Yellow Truck
Lone Star Cement	Youngstown Sheet & Tube

To take one prominent example, the steel industry is likely to be close to capacity operation for some time to come. Thus, if the rise in labor and materials costs does not shrink profit margins too greatly and if depreciation deductions are not very greatly increased this year, the industry's 1941 net income should come out ahead of the 1940 total. We believe, in fact, that it will.

Larger taxation and price controls, however, will produce broadly varying results among the armament-beneficiary industries. Railroads, representing one of the big beneficiaries, are likely to carry through a substantially larger portion of increased gross to net income than the average heavy industry, because of the unusually strong excess-profits tax position of this industry and its favorable ratio of capacity operation to net income. Certain industries protected to some extent against increased labor costs and paralyzing strikes, such as aircraft manufacturing and shipbuilding, likewise definitely will be carried by larger volume to a better earnings year than 1940, despite heavily advanced taxes. Through protective clauses, increases in labor and materials costs are added to price of the product on delivery.

There is another factor which must be taken into consideration, however, with regard to railroads and other industries in which units are large and in which advantages arise through high invested capital bases, such as utilities, railroad equipment, rubber, oil, meat packing and others. This is the Treasury proposal that excess profits tax exemptions on invested capital be cut to 4% on values in excess of $20,000,000. This would fall heavily on the railroad industry, if enacted, as well as on any industry or company relying on invested capital exemptions to keep excess profits taxes down. As our previous example showed, taking an invested capital base of $100,000,000, the proposed sliding scale would allow an excess profits tax credit of only $3,395,000, compared with the current-law credit of $8,000,000. Even the reorganization railroads would incur trouble in this case, since drastic reductions in capitalization compared with the former structures are likely to be followed by an interpretation of an invested capital base with substantial liability. More prosperous Pocahontas coal carriers could fall back on their favorable earnings base for computing excess profits tax exemptions, but the borderline situations, of course, would have no such escape.

Similarly, there are other obstacles to clear sailing for the armament beneficiaries. Price controls are heavily restrictive in many instances. Relatively high cost metal producers, for example, will indeed experience a profitless prosperity; gross will be higher by a wide margin but net income may be seriously reduced, unless current price controls are modified in their favor, which is most doubtful. Farm equipment companies, too, were asked recently by Price Administrator Henderson not to raise prices. Since the industry has experienced no great benefits, as yet, from the defense program, volume increase is not likely to be large, while profit margins will be reduced sharply by higher labor and materials costs, greater taxes and static prices for the industry's production. Chemical companies—war beneficiaries—are in for a tremendous year, but unfortunately they are vulnerable to heavy taxes (particularly excess profits) and their earnings advance, if any, over 1940 is likely to be small.

All factors considered, we believe that the industries best situated as to making a favorable earnings showing this year despite sharply higher taxes are the following: aircraft manufacturing, air lines (have special exemptions from the excess profits tax; these exist when net income for any year is not greater than the sum of air mail revenues and the usual exemption applicable to other corporations), building and building materials (heavy work, including dredging, military bases, plant construction, etc.), chemicals, bituminous coal, heavy electrical equipment, diesel engines, industrial machinery, machine tools, paper, railroads, railroad equipment, metal fabricating, non-ferrous metals, shipbuilding, steel, trailers and trucks. Certain indirect war-economy beneficiaries, such as meat packing, oil and sugar, likewise may make a fairly good showing.

Representative List of Companies Likely to Earn Less in 1941 Than in 1940

(Reflecting Tax Increases)

American Can	Liggett & Myers
American Tobacco	Lorillard
Bayuk Cigars	Montgomery Ward
Beech-Nut Packing	National Biscuit
Borden	National Distillers
Bristol-Myers	Omnibus
Brooklyn Union Gas	Proctor & Gamble
Chrysler	Reynolds Tobacco
Coca Cola	Safeway Stores
Commercial Inv. Trust	Schenley Distillers
Consolidated Edison	So. Calif. Edison
Detroit Edison	Sears, Roebuck
Eastman Kodak	Standard Brands
General Baking	Sterling Products
General Foods	U. S. Tobacco
Great A. & P. Tea Co.	Walgreen
Kroger Grocery	Walker (Hiram)
Lambert Co.	Wrigley

PART III

In view of the foregoing considerations, it is evident why we include so many aircraft, shipbuilding, machine tool, railroad and other heavy-industry companies in our representative list of those which we believe will report higher earnings for this year than thay have reported for 1940 in spite of the shrunken profit margins which will result in large measure from greatly increased taxes. The extent that these companies, as well as a broad variety of others, will be affected by profits tax increases may be gauged, in some degree, from the table which shows how the proposed 1941 taxes would have reduced 1940 earnings, had they been in effect that year.

Normally, the aircraft division would be exceptionally hard hit (*Please turn to page* 157)

Ewing-Galloway

The harbor of Rio De Janeiro.

If the Nazis Control Britain's Latin-American Investments

BY V. L. HOROTH

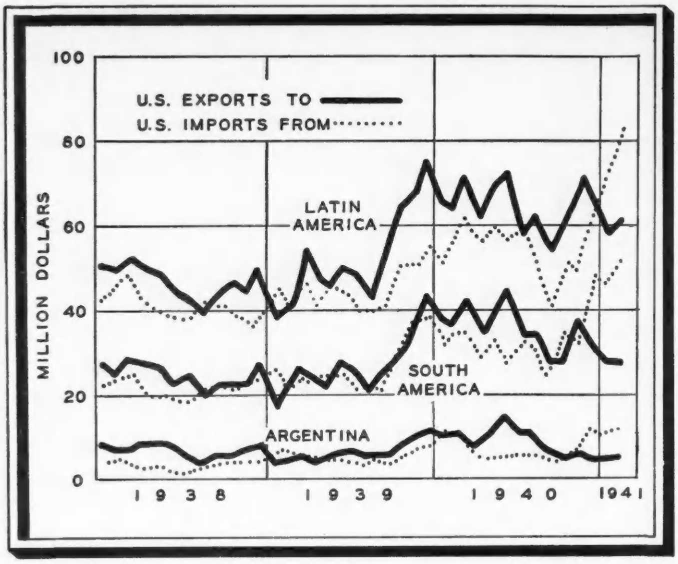
"Latin America—we shall create a new Germany there. We have a right to this Continent. Mexico is a country that cries for a capable master. With the treasures of Mexican soil Germany could be rich and great. . . . "

On the event of an expected German drive for the conquest in Africa and after a "putsch" in Iraq, the above words of Adolf Hitler, as quoted by Hermann Rauschning, former President of the Danzig Senate, have become more ominously portentous than ever. Certainly the Nazis cannot be expected, if they are in Dakar and dictate the peace, to fail to take advantage of their military strength and the industrial power of Europe in driving hard bargains with Latin American nations. The huge exportable surpluses of South American raw materials and foodstuffs, which the impoverished Europe will welcome even more than before World War II, fit altogether too snugly into the scheme of "totalitarian imperialism" which is masked as the "New World Order."

Already both the Germans and Italians are expressing confident hopes that their trade with Latin America will recover its previous volume and go far beyond. Virginio Gayda, bellicose editor of the "Giornale d'Italia," clamors for the inclusion of South America within the economic orbit of the Axis Powers. It is evident likewise from "exploratory peace terms" recently published in Japan that the Axis Powers would require the fullest economic freedom and equality of opportuity in South America, without being obliged to reciprocate in their respective "spheres of influence." It has been reported that the German Economic Ministry has already carefully worked out a detailed plan for the economic administration of Latin America.

Nor do the Germans and Italians consider the economic and political conquest of Latin America particularly difficult. "We shall not land troops and gain Brazil by the strength of arms," says Hitler in "Mein Kampf." "Our weapons are not visible ones. It will be a simple matter for me to produce unrest and revolts in the United States so that these gentry will have their hands full with their own affairs."

Even before the War, racial minorities such as the Germans in Brazil showed their prowess in forcing various commercial agreements. Moreover, the Nazi brand of colonial exploitation of "inferior" people by the



"master" races is bound to find many subversive supporters, especially in those parts of South and Central America which have not yet fully emerged from a semi-feudal colonial economy. This is only too evident from dispatches of the New York Times correspondents in countries which, like Ecuador or Guatemala, have a large backward Indian population, or where, as in Argentina or Brazil, depression and industrialization have tended to break up the former large land holdings.

More recently, totalitarian propaganda in Latin America has been using the Spanish Falange organization (Fascists) as a cover, advocating the creation of a New World Hispanic Empire, and generally denouncing and ridiculing the "unselfish interests" of "Yankee Plutocrats." If the Axis Powers should be victorious, such confusing propaganda could, as many well-informed people believe, result in "totalitarian putsches" and in the breakdown of the Latin American solidarity. Together with political intrigue, the Nazis are certain to employ also some of their economic warfare methods such as currency manipulation, subsidies, and ruthless Government trade monopoly, a foretaste of which Latin American nations have already had.

If Germany should be victorious, however, the threat to Latin American economic and political independence is likely to be far greater than before World War II, since the extensive investments of conquered Continental countries—possibly even of Great Britain—would be used as a means of forcing Latin America into economic vassalage of the Continent.

It has been reported, though not confirmed, that under the provisions of the Armistice Treaty, France has already ceded to Germany all her foreign loans, including those in Latin America. In any case, the Germans have by this time probably set aside enough from the "occupation costs" charged to France, to buy up most of the French investments abroad, and likewise are probably acquiring the investments of two other important Continental creditors,—Belgium and the Netherlands. A still more serious situation would develop if Germany were permitted, under the terms of a peace treaty, to secure the vast Latin American investments of Great Britain.

Up to the year 1929 foreigners had invested in Latin America more than $12,000,000,000. Great Britain and the United States contributed about $5,000,000,000 each. France is estimated to have controlled around $1,250,000,000 and the Netherlands, Germany, Belgium, Sweden, and Canada together another $1,250,000,000. The debt service charges paid by Latin American nations amounted in 1929 to some $500,000,000 annually, of which Great Britain received about $210,000,000 and the United States $190,000,000.

During the ten-year period following 1929, the nominal value of total foreign investments in Latin America apparently shrank to between $9–10,000,000,000. Of the total, Great Britain and the United States now control less than $4,000,000,000 (nominal value) each,

Long-Term Investments in Latin America

(All Figures in Millions of U. S. Dollars)

	Argentina	Brazil	Chile	Colombia	Peru	Uruguay	Venezuela	Bolivia, Ecuador, Paraguay	Total S. A.	Cuba, Mexico & Central America	Total Latin America
1. British Long-Term Investments											
(a) Nominal Value (Aug. 1939)											
Government	180	300	80		24	72	...		680	136	816
Railway	944	152	80	24	...	56	12	48	1,268	536	1,804
Other	436	188	260		92	40	72		1,112	252	1,364
Total	1,560	640	420	24	116	168	84	48	3,060	924	3,984
(b) Market Value (Aug. 1939)											
Government	128	56	8		8	32	..				
Railways	208	20	20	(a)	...	4	1	(a)	(a)		
Other	(a)	88	(a)		16	48	68				
Total	(a)	164	(a)	(a)	24	84	69	(a)	(a)		
2. U. S. Long-Term Investments											
Portfolio Investments Dec. 1939 (Nominal Value)											
Government	198	250	125	119	54	36	...	54	836	104	940
Corporate	...	23	66	9	...	...	...	...	98	2	100
Direct Investments Dec. 1936 (Book Value)											
Railroads & Utilities	155	84	80	31	10	...	11	...	371	559	930
Mining & Petroleum	...	33	382	59	47	...	174	...	695	335	1,030
Other	193	77	22	18	39	14	2	28	393	487	880
Total	546	467	675	236	150	50	187	82	2,393	1,487	3,880
3. Long-Term Investments of Other Countries (1929)											
Nominal Value	500	725	300	20	120	272	37	70	2,044	610	2,654

Sources: British Investments: From the memorandum compiled by British economists and presented by Secretary Morgenthau during the Lend-Lease Act hearings. U. S. Investments: Department of Commerce. Other Countries: Prepared on the basis of various estimates. (a) Not available.

the reduction resulting principally from the revaluation of the pound sterling, repatriations and lower valuations. As will be seen from the accompanying table, the liquidating value of the British investments is, of course, considerably smaller than the nominal value. The return on the British investments in Latin America, calculated by the South American Journal, was down to about £19,000,000 ($76,000,000) in 1939, but undoubtedly could be stepped up under the energetic management of the German Ministry of Economics.

The British investor has been interested principally in South America, where about three-fourths of his investments are located, whereas the United States, as will be seen from the accompanying table, is the leading creditor in the Caribbean and Central America. The favored British investments have been railway securities in Brazil and Argentina, where until recently about two-thirds of the railway systems were British controlled. Substantial British investments have been represented also in the public utility and municipal securities of Argentina, Peru and Brazil, nitrate companies in Chile, and in merchandising and engineering enterprises all over South America.

Because of the size and importance of British investments in Latin America, their expropriation by the Axis Powers would of course have tremendous repercussions. In the first place, the Nazis, as they showed last year in Roumania, would be less lenient than the easy going British "capitalists" and undoubtedly would exact the payments of all areas in goods. This would tend to draw Latin American surpluses of foodstuffs and raw materials toward the Continent of Europe. Goods available for export to the United States would dwindle, as would the supply of dollar exchange for debt service on our investments. Therefore, unless we fight fire with fire, and adopt the same trade offensive as the Nazis,—that is, barter, Government trade monopoly and currency manipulation—it appears likely that our own investments would in time become practically worthless.

Still more important, however, than the deterioration of our own investments would be the increased cost of the national defense that we would have to maintain if the Nazis were over-running the Western Hemisphere economically. So far as the Latin American nations are concerned, this would be literally a throw-back to the colonial feudal system, requiring them, as in Spanish times, to produce raw materials and foodstuffs for "master" industrial states. Such a system would be infinitely more oppressive for Latin America than the present capitalistic system could ever be, since it would offer no hope for economically backward people. In Uruguay, which in the Summer of 1940 felt itself threatened by a "totalitarian putsch," the Nazis plans were found to contain measures tending to insure the functioning of Uruguay as "a German agricultural colony."

Such extreme domination, however, seems unlikely, since there are still ways left to prevent British investments from falling into German hands. Part at least of the British investments in Latin America could be assigned to the United States and to Canada, in payment for war aid. Moreover, a part of the British purchases in Latin America could be paid for by selling back British-owned Latin American bonds and stocks. This would be feasible where there are beginnings of local money markets, as in the ABC countries, and where internal loans could be floated to finance such transactions.

Sawders from Cushing

The world's largest tin mine and concentrating plant at Llallagna, Bolivia.

The advantage of such liquidation of the debtor position of Latin American nations would be twofold. In the event of British defeat, it would prevent the passing of such British-held securities into the hands of a new creditor, and at the same time strengthen the economies of Latin American countries by easing their transfer problem. As part of the drive for an economically more mature, diversified and interdependent Latin America, it might even be wise for the United States to assist in financing such repatriation.

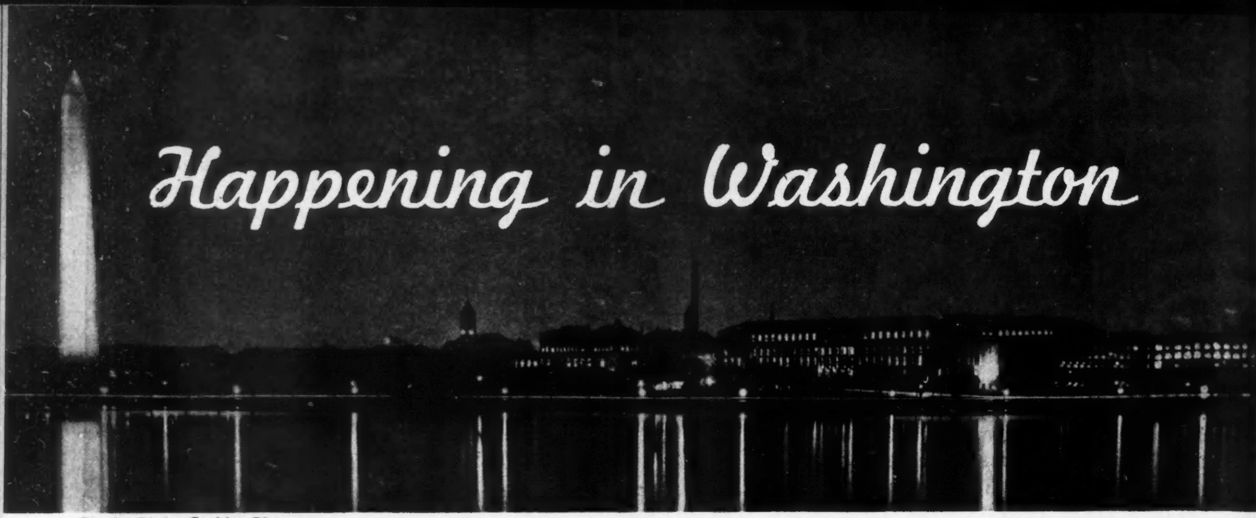
United States Objectives

Certainly in converting Latin Americans to the policy of Hemisphere defense, we must show them that they are not choosing between "Yankee Imperialism" and the "totalitarian imperialism" of the Nazis. We must show them that, unlike Hitler, who has been depriving non-German countries on the Continent of their industrial power, and consequently of their power to defend themselves, the United States is not interested in organizing a Hemisphere economy for the sake of monopolizing an export market, but rather to rebuild it in such a way as to decrease the dependence of Hemisphere countries upon outside materials and markets.

We must prove to Latin Americans that we can offer them much more than a permanent market for their surpluses of raw materials and foodstuffs, as Hitler proposes to do. We must show them that we are willing to accept their industrial products as well, and that we welcome the impetus which the war has given to South American industrialization. We must co-operate toward closer economic relations of Latin American nations with each other—even though this should involve some loss of our exports—as an essential step toward their achieving greater national economic independence.

Up to recent months, efforts (*Please turn to page* 160)

Happening in Washington



Charles Phelps Cushing Photo.

BY E. K. T.

Production program for defense has been multiplied eight times since last June; only one-third of present program is under contract; plans are under way to add still more to the program. The current dislocation of civilian business is nothing to what is coming by fall or sooner. The enormity of the defense program staggers the planning experts and is only beginning to dawn on industry.

Production planning methods have had to be revised. First plan was to determine what armament articles were wanted and then look ahead to bottlenecks. Now the planners are listing maximum possible supplies of raw materials and processing facilities and working from that to a schedule of production and deliveries. This means that there will be little or no supplies of strategic materials available for civilian production.

WASHINGTON SEES:

More controls of business, severe restrictions on civilian activities, will be imposed as necessary to increase production of armament. Country is gradually waking up to the fact that it can't have business as usual, but the awakening is not rapid enough to suit the administration, and shocks are coming. More, very much more, of our industrial capacity must be diverted to defense.

This is based on a realistic appraisal of the U. S. role in defense of democracy: England can't defeat Germany until it has equal or superior equipment; the best contribution of this country is to use its mass-production techniques in producing this equipment rapidly and in quantity; therefore, all-out effort to make ships, tanks, planes, guns, munitions.

To accomplish this, every resource must be strained to the utmost. Essential civilian needs will be met so far as possible, but all non-essentials must give way. We are at war, and this is our kind of war, a kind which may keep us out of a shooting war. But it is war, that war means concentration of interests on one objective, suppression of distracting activities, and regimentation and control.

Sub-contracting is being expanded, virtually forced, by the pressure to put every available machine to work on defense materials. OPM is rapidly expanding its contract service through which small plants are helped to switch from civilian to defense work. Big companies and industrial centers are now heavily loaded with orders, so expansion must spread the program to localities which have been complaining of lack of defense business. In most, though not all, lines of business, a defense contract can be found for every plant threatened with loss of its usual business by operation of priorities.

Steel capacity, once officially determined sufficient for defense needs, is now considered inadequate. How to get more is in part a political problem. Some in Administration want Government to build and own new plants for defense, ostensibly to be kept in stand-by condition after the emergency. Industry fears political pressure would cause them to be operated as yardsticks to force down all steel prices.

Government bottlenecks slow defense program as much as industrial choke-points. Most bureaucrats think they can continue Government as usual simply by putting on a defense label. "Every bill and project wears a uniform." Inter-departmental jealousies and rivalries cause many delays. And all officials privately admit that too many things have to clear through the White House. There is little prospect that these difficulties will be remedied soon.

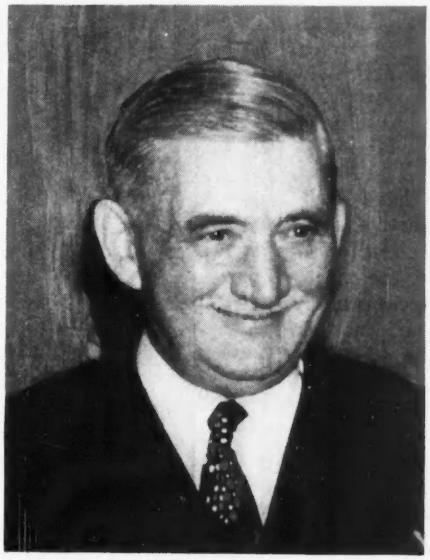
Price control legislation is being drafted but won't be pressed for a while. Present OPACS policy is to keep prices flexible but relatively stable, and in constant readjustment one to another. If this doesn't work or gets too complicated, it will turn to legislation to freeze all prices of goods and services as of a certain date and then make specific exemptions sparingly. This latter course

is being urged by some for immediate application but Henderson opposes it for now.

Marginal producers complain they can't stay in business at prices fixed by OPACS for some commodities. Policy matter now being fought out within OPACS is whether to raise prices to levels which will bring in high-cost production, to ignore marginal producers, or to subsidize them by a two-price system.

Over-time wages will soon be a political issue. Where labor is available a four-shift system will permit defense plants to operate continuously at 40 hours per shift. Many union rules require over-time pay for Saturday and Sunday work even though the men work only 40 hours per week, and this is an issue in some current strikes and strike threats. Where four shifts are not available, time-and-one-half must be paid beyond 40 hours or else there is a week-end black-out, and this is causing a demand for amendment of the wage-hour law. Administration's position is that it will consider amendment only when it is demonstrated that defense necessities require it, and labor intends to see to it that this is never demonstrated.

Business control by regulation instead of the case method of individual prosecution is sought by Federal Trade Commission in proposed legislation which would permit F.T C to draw up rules of fair trade practices based on its own adjudicated cases. Now FTC must prove every charge of unfair method of competition. Proposed law would permit it to bring court action for penalty on showing that any firm engaged in a practice already held to be unfair. Plan is short of revival of NRA in that FTC would not make rules but only generalize and apply court decisions.



G. M. Photo

Knudsen, co-chief of OPM. What a job! Defense output plans expanded eight-fold since last June and more to come.

Anti-strike legislation will be kept on ice in Congress, but within easy reach whenever stoppages in defense industries get acute again. Strike situation is relatively quiet right now, but several potentially bad situations are brewing. Many in Congress who really don't want restrictive labor legislation are glad to have a bill pending to serve as a threat when needed.

Tax compromise will be worked out hitting middle-income families not quite so hard as Administration suggested, yet not going all the way in nicking low incomes. Little likelihood of general sales tax now. Administration's opposition is not entirely genuine; it wants to save the sales tax until next year in belief that then there will be fuller employment and higher wages and also that curtailment of consumer buying through a sales tax will be in order as an inflation curb within a year or so.

Radio network regulations ordered by FCC will be fought in court. If enforced they will impair earnings of chains, reduce network advertising coverage, change business methods of many local stations. Underlying reason for order is Administration fear of power over public opinion on political questions which networks might wield, potentially at least. Radio men say these fears are baseless; see the order as another example of Administration's opposition to bigness in business.

New industries have little chance to develop if they need metals, strategic materials, skilled labor, or machine tools. Defense priorities will prevent them from getting supplies. Thus television and FM radio, for example, are probably stymied for the duration. Manufacturers of standard radios and scores of other things are planning to curtail production and hold up new models because of material shortages present or impending.

Government economy is being talked to tune of $1 billion saving, but this won't be accomplished this year. Even if Roosevelt took the lead and fought pressure groups—which he shows no inclination to do—not much could be done now since most appropriation bills for 1942 have already been written. The most that can be expected is a Congressional resolution impounding a percentage of all non-defense appropriations, to be released only by the President.

Economic warfare against the axis is being rumored, such as freezing German and Italian credits, embargoing all oil to Japan. But Administration is hesitant, fearing reprisals. If such steps are taken they will be directed ostensibly against all nations, but license systems will be set up which quietly will let the British do what they want.

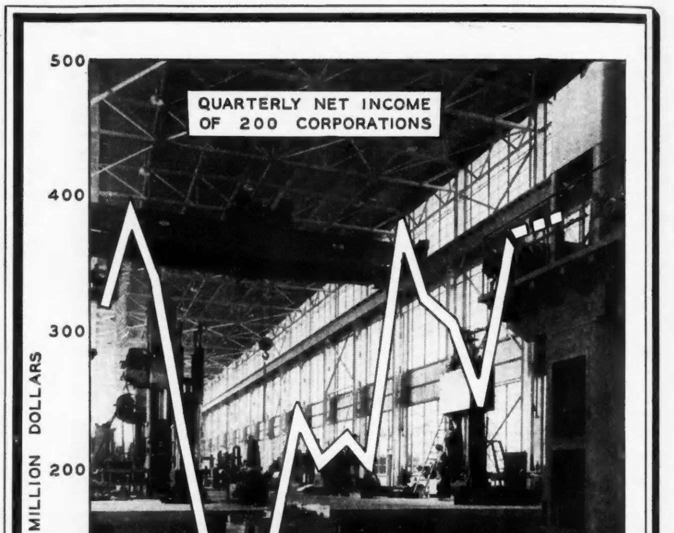
Oil supply in North Atlantic states may be desperately scarce next winter if England gets the United States tankers she says she must have. Coastwise tanker fleet now is barely sufficient to meet demands, and there is doubt the railroads could handle the extra load, and if they can the cost will be much higher. Congress may rush legislation to encourage construction of additional pipelines, but not enough could be built, even if economically feasible, to fill the prospective tanker shortage.

Tax amortization policy of OPM is hard-boiled. Scores of companies planning new facilities seek certificates that they are needed for national defense in order to get the special 60-month tax amortization, but OPM is very skeptical and is holding such certificates to projects which are clearly and specifically related to defense production, whether or not Government-financed.

Industrial Earnings in the Second Quarter

Analysis of First Quarter Statements Reveals Widely Varying Trends and Prospects

BY PETER B. B. ANDREWS



Rarely in past financial history have first quarter earnings reports been less indicative than in the current year. This is the situation for a variety of reasons. In the first place, the exact terms of the 1941 corporation tax, excess profits tax and other taxes are, of course, not known, and had to be guessed at the time the majority of first quarter reports were being made up. And, then, the O P A is only beginning to freeze and regulate prices, with the O P M and other Government agencies likewise having ahead of them a great deal of regulatory activity which will affect earnings. Rising labor costs, priorities, the possibility of our entering the war before long, Governmental action which may result either in flatly taking over of many industries or at least of setting up great competitive units, and numerous other factors serve to confuse the issue for earnings of this quarter and coming periods.

In recognition of the complexities which may necessitate complete revision of first-quarter earnings statements, many companies set up exceptional reserves which not only provided for possible drastic upward changes in taxes, but also covered other possible contingencies through added special reserves. The effect, where such provisions have been made (and not every company indicates whether or not they have made such provisions), is a material distortion of the comparison with the earnings report for the first quarter of 1940. The distortion is made even more extreme by the fact that many of the 1940 reports were presented in their best possible light: i.e., with no provision made for higher taxes which applied for the full year 1940. There is thus a comparison of an over-conservative report this year in some instances with an over-optimistic report last year.

Atlas Powder Co. is one of the numerous cases in point. Sales in the first quarter, totaling $7,411,458, rose 65% over those of the first quarter last year. Federal income taxes rose to $446,970, compared with $91,505 in the first quarter of 1940. However, in the first quarter of last year, the company made no provision for excess profits taxes, while in the first quarter of this year it provided not only a $399,030 item for excess profits taxes but an additional reserve of $200,000 to provide for other tax contingencies. In spite of the increase of more than 800% in tax provisions over last year, the company still was able to report a rise of 20% in net income for the quarter. Net income equaled $1.41 a common share, compared with $1.11 a share in the first quarter of 1940. The company's earnings outlook is excellent, despite the fact that profit margins are likely to continue to shrink. This reflects the company's ranking as a strong defense beneficiary. Current defense orders alone are believed to be in excess of $28,000,000.

Representative of another type of company, a so-called "casualty" of the defense program, General Motors had a record-breaking total of sales for the first quarter of 1941, being unable, in fact, to fill the enormous demand during the period. Yet its earnings per common share declined to $1.44, from the $1.50 a share reported for the

first quarter of 1940. Only 7.6% of the company's sales volume was accounted for by defense business; automotive sales, therefore, were largely responsible for the 42% increase in first quarter sales. These totaled $649,192,619, while earnings before income and excess profits taxes were $129,774,761, topping those of the first quarter of 1940 by 52%. Taxes completely ravaged the profit increase, expanding $46,849,000, or 256% over 1940. The resultant decline in net income reached a 3.6 percentage. It is noteworthy that the company provided for taxes at the existing rates. Reserve for contingencies, however, was built up to $35,000,000 through a $10,000,000 appropriation from first quarter earnings. In the second quarter of 1940 the company began this reserve with a $15,000,000 deduction from earnings, and added $10,000,000 more from final quarter earnings. The future shrinkage in profit margin may be even more severe than for the first quarter. This prospect reflects the difficult changeover of part of GM's productive capacity to armaments. Though the company has large defense production contracts (over $700,000,000), its profit margin on them is likely to be small—much more so than in automotive business, in the early stages of fulfillment, at least. That GM is primed for heavy activity is evident in the fact that inventories as of March 31, 1941, totaled $288,945,882, compared with $218,033,060; in relation to sales trend, however, these inventories actually are conservative. Incidentally interesting is the fact that GM's earnings experience in the first quarter is not typical of the entire industry, five small companies having reported net income of $1,633,000 for the quarter, a gain of 86% over net of the similar quarter of 1940.

Since lack of space obviously prevents an analysis of the earnings statements of all the companies we have listed in the tabulations accompanying this article, we shall continue to analyze typical reports with the thought that their representative nature will give our readers insight into the important factors to consider beneath the surface of published reports. Taking another type of situation—Consolidated Edison—the fatal nature of reporting only a small increase in sales volume is well demonstrated in its consolidated report, which shows an increase of only $556,945 in its March quarter total operating revenues. These aggregated $71,892,536, compared with $71,335,591 in the first quarter of 1940. The tax rise alone from $14,253,667 in the 1940 period to $15,751,681 in the 1941 period far more than wiped out the gain in gross, of course; this is even more noteworthy in view of the fact that no provision was made for the Federal excess profits tax, as preliminary computations indicated that no such liability existed. The report showed, finally, net income equal to $0.99 a common share, compared with $1.11 a share for the first quarter of the past year. In relation to the annual dividend of $2 a share, this does not look very unfavorable, but it must be realized that the first quarter is the company's biggest normally, as indicated in the fact that its net income for the 12 months ended March 31, 1941, totaled $2.11 a common share. For the preceding 12 months the company earned $2.25 a common share. Gauging the prospect on the basis of trends revealed by the first quarter report, this quarter very likely will be worse than that of 1940, with full year net, too, likely to be substantially below that of 1940. This is typical of the utility industry; a representative group of electric, gas and traction companies experienced for the past quarter a small decline in net income from the comparable 1940 reports. There is no indication of an early reversal of this earnings trend.

Large Sales Increase Necessary

Another example—even in the booming heavy industries—of the necessity of very large increases in gross as an offset to sharply higher costs is American Steel Foundries. This company's net sales showed a fairly healthy advance for the first quarter to $9,777,988, a rise of almost 10% over the $8,192,522 reported for the first quarter of 1940. Increases in operating costs, plus the 170% rise in tax provisions—to $780,588, caused per share net income to drop to 82 cents, compared with $1.06 in the first quarter of 1940. The reserves for taxes include $162,500 for excess profits taxes and $195,000 general reserve for probable tax increases. As previously pointed out, it is always important to note that earnings

Representative Companies Showing Advances in First Quarter Earnings Over 1940

Company	Earned Per Share 1941	Earned Per Share 1940	% Change
Jones & Laughlin	$5.43	$0.18*	+2916.6
Savage Arms	2.99	0.14*	+2035.7
Wheeling Steel	2.64	0.29*	+810.3
Mack Trucks	1.10	0.19*	+478.9
Youngstown Sheet & Tube	2.61	0.63*	+314.3
Rustless Iron & Steel	0.80	0.21	+280.9
Crucible Steel	5.90	1.74*	+239.0
Allegheny Ludlum Steel	2.12	0.72	+194.4
United States Steel	3.47	1.24*	+179.8
United Aircraft	1.81	0.89*	+103.4
National Acme	1.84	1.03*	+78.6
American Brake Shoe & Foundry	1.06	0.66*	+66.7
Caterpillar Tractor	1.28	0.78*	+64.1
Borg-Warner	1.01	0.63	+60.3
Lone Star Cement	0.90	0.57*	+57.9
Inland Steel	2.79	1.88*	+48.0
Crown Cork & Seal	0.77	0.54*	+42.5

Company	Earned Per Share 1941	Earned Per Share 1940	% Change
Atlas Powder	$1.41	$0.99	+42.4
Link-Belt	0.75	0.54*	+39.0
Westinghouse Electric	2.10	1.51*	+39.0
National Steel	2.46	1.82*	+35.1
Air Reduction	0.71	0.53*	+33.9
United States Gypsum	1.01(a)	0.77*	+31.2
Loose-Wiles Biscuit	0.59	0.45*	+31.1
Radio Corporation	0.14	0.11*	+27.3
Penick & Ford	0.91	0.75*	+21.3
Doehler Die Casting	1.28	1.08*	+18.5
Westinghouse Air Brake	0.66	0.58*	+13.8
American Cyanamid "A" and "B"	0.60	0.53	+11.6
Coca-Cola	1.48	1.39*	+6.5
Corn Products Refining	0.81	0.76*	+6.5
Hercules Powder	0.93(a)	0.91	+2.2
American Chicle	2.12	2.09*	+1.4

* Not adjusted for increased taxes subsequently enacted in 1940. (a) Federal income taxes based on present law and anticipated increase in rates during 1941.

as reported for the first quarter of 1940 may have been over-optimistic in not putting aside enough to provide for the higher normal corporate income taxes and the stiff excess profits tax announced later. Carrying through on American Steel Foundries' prospect, as might be indicated by first quarter earnings trends and other factors, we believe that this report is not indicative of what is to come in later quarters this year; in other words, we consider that the company's current orders in railway castings and other lines are sufficient to advance volume to a point where earnings will run ahead of those in 1940.

Taking an outstanding company in light consumers' lines—General Foods—its net sales for the first quarter of 1941 showed the splendid rise of not far from $5,000,000—to a total of $45,249,496. All but a minute part of the gain, however, was eaten up by increased costs and higher taxes, with the consequence that 83 cents per common share was reported, an advance of only one cent a share over the 1940 first quarter earnings. The company made provision in the first quarter of 1941 for $1,147,446 as a reserve for possible inventory write-downs and other contingencies, including taxes; the provision for comparable purposes in 1940 was $443,466. Exceptional gains in the company's fast-growing Frosted Foods division, along with unusually successful merchandising of its other packaged lines, account for the company's fine showing, but it appears doubtful if the company can continue to edge ahead of its last year's earnings under the onslaught of increased materials and operating costs, as well as taxes.

In another consumers' line—department stores—the Marshall Field report is interesting. The company's dollar sales volume and other income in the first quarter advanced about 7% over that of the corresponding 1940 quarter. Tax reserves are officially indicated to have been built up substantially further, though it is not revealed at what rate. First quarter reserve last year was not large, but in the second quarter the company jumped these deductions materially and has followed a conservative policy since. After all expenses, taxes and other charges the company's gross income figure of $21,592,560 for the first quarter had dwindled to $857,893 (net profit), equivalent to 33 cents a common share, compared with 32 cents a share in the March, 1940, quarter. The company's showing is not typical of the average retail trade organization which was unable in the first quarter to offset greater taxes, higher merchandise and payroll costs and still make a better showing than in 1940. Numerous companies in this field, in our estimation, will report lower earnings than in 1940 for the second quarter and for the full year, in spite of sharply enlarged sales.

An example from the booming aircraft industry likewise is of considerable interest. Glenn L. Martin's first quarter sales soared to $17,063,147, a 92% gain over sales of the similar period of 1940. The earnings report showed total income before taxes more than doubled, with the comparison impressive until tax provisions were reached. Income tax provisions—at $1,467,000—were 185% above the 1940 figures, while the first quarter deduction for additional potential taxes aggregated $2,500,000. Since income tax provisions in the first quarter of 1940 totaled only $515,000 and no reserve was made for contingencies and added taxes, the comparison of final net income is especially favorable to that year. Per share net income for the 1941 quarter, accordingly, equalled $1.70, vs. $1.98 for the 1940 quarter. Net income, however, appears headed definitely higher, unless extremely large provisions for contingencies continue to be made. This expectation is based, of course, on the huge amount of business on hand for the company. As of March 31, 1941, unfilled orders totaled $327,856,853 in firm commitments, plus about $130,000,000 in letter orders and letters of intention. This brilliant intermediate-term outlook is typical of the entire aircraft industry.

As a final typical earnings report, the Shell-Union figures for the first quarter are worthy of analysis. In common with other oil companies, which enjoyed a poor period because of a bad price situation, Shell suffered a reduction in total operating revenues to $62,990,646, contrasted with $67,006,321 in the March quarter of 1940. The drop in gross lessened the need for large tax provisions, so that the Federal tax reserve for the period was only $1,046,300, compared with $949,800. Net income declined to $3,621,794 from $5,314,158, and common share earnings to $0.24 from $0.37. Earnings comparisons for this company, as well as for the entire oil industry, have been unfavorable. Though 15 of the larger petroleum products companies reported for the first quarter of this year a decrease of approximately 25% from income of the corresponding quarter last year, the future holds promise of a much better showing, because of record-breaking demand and the much-improved price structure. Last year the earnings trend of the industry was downward, each quarter having been worse than its predecessor. This year, the reverse seems indicated, with steady improvement lying ahead. The export oil division may be given a major stimulant in Britain's turning to us for more oil because of the developments in the Near East. *(Please turn to page 159)*

Representative Companies Showing Declines or Virtually No Gain in First Quarter Earnings

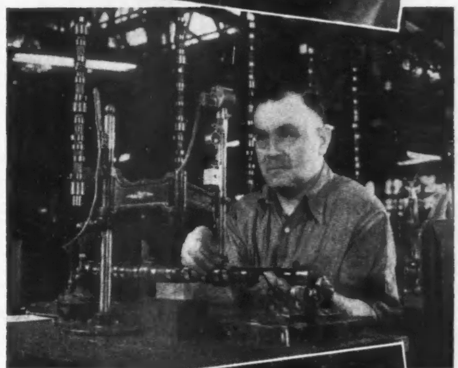
Company	Earned Per Share 1941	Earned Per Share 1940*	% Change
National Biscuit	$0.37	$0.38	......
Union Carbide	1.14(a)	1.13	......
General Foods	0.83	0.82	......
Marshall Field	0.33	0.32	......
Hazel-Atlas Glass	1.09	1.08	......
Standard Brands	0.17	0.17	......
Bethlehem Steel	2.95	3.02	— 2.3
General Motors	1.44	1.50	— 4.0
General Electric	0.39	0.41	— 4.9
Clark Equipment	1.98	2.16	— 8.3
Timken Roller Bearing	1.08	1.20	—10.0
duPont	1.77(a)	2.04	—12.7
Anchor Hocking Glass	1.43	1.64	—12.8
Martin (Glenn L.)	1.70(a)	1.98	—14.1
Peoples Drug	0.49	0.42	—14.3
American Steel Foundries	0.82	1.06	—29.2
Shell Union Oil	0.24	0.37	—35.2
Allis Chalmers	0.33(a)	0.54	—38.8
Chrysler Corporation	2.20	3.62	—39.2

* Not adjusted for increased taxes subsequently enacted in 1940. (a) Federal taxes based upon present law and anticipated increase in 1941 rates.

Increased Labor Costs Broken Down By Industries

Higher Wages Have Widely Varying Relation to Net Profits of Individual Industries

BY J. C. CLIFFORD



Top Photo, Courtesy Colorado Fuel & Iron; Others, Courtesy General Motors.

Some of the greatest relative gains in the history of organized labor have been experienced this year, both as to lifting of wage levels and as to labor's influence in the American economic system. Already, in the first four months of this year, about 1,000,000 wage earners in manufacturing and building received wage increases, varying from five to ten cents or more per hour. Several hundred thousand also won the right to vacations with pay for the first time.

The stockholder, worried by the rigid regulatory activities of the O P A C S, the O P M and other Government agencies (and justifiably so, because of price freezings and other restrictive action, while no effort is made to restrain labor) must take further profit shrinkages for granted. Nevertheless, it is a fact that for some industries labor costs are exceedingly important, and for others much less so; the situation, indeed, varies so broadly in different industries that we have decided that a breakdown of relative labor costs for leading industries would be interesting and valuable to our readers.

Leading among the various industries in high relative labor costs is machine tool accessories, according to the Federal Trade Commission, while at the other end of the scale among a selected group of trades are the carbonated beverage manufacturers. The machine tool accessory ratio runs to 32.6 per cent, while the latter trade's ratio is 2.9%. The high ratio of labor costs in the first-mentioned industry is understandable in view of the fact that its processes require much skilled manual work and it is in a "bottleneck" status. This necessitates increasing employment as rapidly as possible without much regard to cost. Indicative of the rapidity of the rise in employment of the machine tool industry, the Department of Commerce index of employment in this trade stood at 299 for February, 1941, compared with 204 for February, 1940.

The uptrend in machine tool labor and wage costs will probably intensify over the near term; in fact, cur-

rent estimates of 1941 machine tool output are up to $750,000,000, which would compare with the $400,000,000 sales in 1940. Mandatory priorities for this industry will have the effect of reducing profit margins, in that a greater portion of sales will be for defense-program activity, for which prices are fairly well capped. In spite of shrunken profit margins resulting in part from higher wage costs, this industry is likely to report larger income this year than in 1940, because of the prospective jump in shipments.

Next to the machine tool accessory trade in high labor cost is steel castings, with a 31.8 per cent ratio. The steel industry itself is seventh, with a ratio of 25.2 per cent. Steel wages were raised recently (not reflected in the tabulation accompanying this article) to 72½ cents an hour, from 62½ cents an hour basically. This is a gain of about 16 per cent in hourly earnings for workers in that category; over-all the advance is between 11 and 12 per cent. Theoretically, if prices were to be raised enough to cover the wage increase, other things being equal, they would have to be advanced 3%. Steel industry payrolls now are at an all-time peak. The latest Department of Commerce employment index (1923-25 equals 100) was at 124.8 for February, 1941, compared with 106.7 for February, 1940. As in the case of machine tools, higher gross revenues are likely to save the day for the steel industry, in spite of increased labor and other costs. We expect that the industry in the aggregate will show higher income for 1941 than in 1940, in spite of the fact that the O P A C S has placed a firm ceiling on prices.

Textile lines, too, are among the high-labor-cost industries. The Federal Trade Commission indicates a labor cost of 29.3% for the knit goods trade, 26.2% for all the clothing trade proper and 23.2% for the carpet and rug industry. As might be expected, however, employment gains in these industries have been far less spectacular than in the heavier lines. For the entire field of textiles and their products, the Department of Commerce index stood at 107.0 for February, 1941, compared with 102.7 for February, 1940. It is to be realized, too, that the unions in this industry are perhaps the strongest of any in the major trades, so that the industry must be regarded as poorly situated from the standpoint of labor costs to the company. Though not so restricted as the defense lines on price increases (Fall lines have been advanced 10% or more), clothing trades nevertheless are unlikely to be able to offset higher labor costs this year, with lower earnings than in 1940 a strong possibility. General textile and floor coverings face similar prospects.

An industry classified by the Federal Trade Commission as firearms and ammunition likewise is in the upper category of high ratio of labor costs to the aggregate. The industry, in fact, is fourth in this respect, having a ratio of 29.1%. Emergency nature of this industry's output makes labor costs secondary, but as in the case of all primary defense beneficiaries, the munitions industry's sales rise is likely to be so large that greater costs will be absorbed easily and income, accordingly, advanced over that of 1940.

Electrical equipment, engines, heating and cooking equipment, refrigeration and air conditioning, railroad equipment and machinery generally also are among the high-labor-ratio industries. Costs in these industries, both for labor and equipment, are in a distinct uptrend. Electrical equipment, with a 28.5% labor ratio shows a February employment index of 134.6, compared with 101.6 in February, 1940. The index of payrolls in this industry shows an even sharper jump—to 171.6 in February, 1941, from 111.6 in February, 1940. So great are the labor cost advances, as well as the increases in materials and other costs, that this industry will have difficulty in making a substantially improved showing in net income over 1940. In the field of engines (turbines, water wheels, etc.), employment conditions have been more mercurial than in the electrical equipment field. This is accounted for in part by the stimulus from the marine equipment division. The employment index for this industry reached 234.3 in February, 1941, as against 133.0 in February, 1940. Payroll advances, too, were sharp, the index for February, 1941, being 345.2, vs. 171.6 in February, 1940. This field will enjoy a substantial rise in profits, we believe, in spite of sharply advanced labor costs. The labor cost ratio of the industry now runs around 22.7 per cent.

Other industries mentioned in the preceding paragraph have labor-cost ratios about as follows: heating and cooking equipment, 20.1 per cent; refrigeration and air conditioning, 19.0 per cent; railroad equipment, 18.3 per cent and general machinery, 17.1 per cent. Heating and cooking equipment, as well as refrigerating equipment face a relatively dubious future (though they have

Employees leaving one of the Wright Aeronautical Corporation's five Paterson, N. J., plants

Wage Increases—January and February, 1941

Industry	Number of Plants	Number of Employes	Average % Increase
All Manufacturing	757	267,894	5.0
Iron and Steel	102	25,401	6.0
Machinery	171	55,516	7.5
Airplanes	87	1,635	8.0
Automobiles	19	81,741	2.5
Shipbuilding	11	7,162	6.5
Lumber and Lumber Products	123	25,685	5.0
Stone, Glass, Brick, Cement	31	11,587	4.5
Textiles and Textile Products	59	16,487	6.5
Food Products	39	2,956	7.5
Paper, Pulp and Printing	48	3,459	5.5
Chemicals	60	9,854	6.0

Source: U. S. Department of Labor.

done exceptionally well recently), because of the spread of priorities to a point where they will be materially affected; this combined with greater labor costs points to shrunken earnings in these fields, compared with last year's showing. Air conditioning, railroad equipment and machinery generally, on the other hand, each face improved results over those of 1940 regardless of the jump in labor and operating costs.

Taking a variety of other industries and breaking down their relative labor costs, we find that as to labor-cost-ratio, clay products ran 24.2 per cent; office equipment; 22.4 per cent; shoes, 22.1 per cent; paper, 20.1 per cent; copper, 19.6 per cent; gypsum and asbestos roofing, 17.1 per cent; radios, 16.7 per cent; baking, 13.0 per cent; tin cans and tinware, 12.5 per cent; domestic laundry equipment, 12.2 per cent; canning, 9.3 per cent; oil, 8.4 per cent; paint, 6.5 per cent; milk, 5.0 per cent and carbonated beverages, 2.9 per cent. Among these trades, the ones which we believe will find advanced labor costs (and other expenses) too great to permit an earnings rise this year over 1940 are the following: shoes, baking, tin cans, laundry equipment, canning, milk and carbonated beverages. In other words, as matters actually work out, those industries (in the main) with the high ratio of labor costs to the total also happen to be the trades which will experience relatively great betterment from the armament program—enough so to counterbalance the drag of larger expenses.

The oil industry, among others, is in the rather peculiar position of having had, earlier this year, lower payroll costs than during a corresponding time last year. Thus, the Department of Commerce employment index for petroleum refining was 120 for February, 1941, compared with 122 for February, 1940. For crude petroleum producing, the index ran for the above months 60.0 and 63.0, respectively. Explanation for this is found in the exceptional activity which characterized the petroleum industry for several months after the war broke out in 1939. Oil trade activities, following the war-outbreak spree, entered a steady downgrade, which persisted throughout most of 1940. Only recently, in fact, has the oil industry experienced a turn for the better, both as to prices domestically and improved export demand.

Payroll gains in a number of other industries, as gauged by index comparisons of February, 1941, with the corresponding month of 1940, are additionally pertinent and interesting. Thus, the 1941 index for lumber and allied products is at 70.0, compared with 60.0 for February, 1940; for furniture at 89.9 vs. 76.8; lumber and sawmills, 59.6 vs. 52.0; agricultural equipment (including tractors) 173.5 vs. 163.8; foundry and machine shop products 134.9 vs. 94.2; radios and phonographs 143.9 vs. 113.0; non ferrous metals and products 151.4 vs. 103.4; brick, tile and terra cotta 53.4 vs. 39.6; glass 135.2 vs. 108.3; aircraft (1923-25 equals 100) 6,525.3 vs. 2,183.9; automobiles 160.4 vs. 119.1; shipbuilding 335.0 vs. 149.9; anthracite mining (1929 equals 100) 45.2 vs. 32.9; bituminous mining 91.0 vs. 87.0 and metalliferrous mining 72.7 vs. 64.2. All of these industries, except furniture, agricultural equipment, radios and automobiles are likely to take higher labor costs in stride this year and report improved earnings over 1940.

Among non-durable goods lines not previously discussed, chemicals (1923-25 equals 100) reached 194.0 in the February, 1941, employment index, compared with 159.7 for February, 1940; slaughtering and meat packing 113.1 vs. 110.9; paper and pulp 132.0 vs. 116.9; printing 116.8 vs. 108.6; rubber products 113.9 vs. 88.4; tobacco manufactures 61.9 vs. 54.0; electric light and power utilities (1929 equals 100 for this and following industries) 104.9 vs. 102.2; street rail- (*Please turn to page* 156)

where 17,000 men are employed producing aircraft engines for National Defense.

The income investor is confronted today with uncertainty in abnormal degree—which is why the opportunity for selection of dividend-paying equities is also unusually great.

Common Stocks Priced To Yield 6 Per Cent or More

BY J. S. WILLIAMS

With many outside influences at work—some of them good but most of them doubtful—investor consideration has been given to intangibles in such great measure that the more orthodox investment factors of income and earnings have been sadly neglected. Such disregard for what was once considered to be among the cardinal factors of satisfactory investment is understandable in the light of current uncertainties both at home and abroad, but as far as reasonably secure income from equity investments is concerned, it would seem as if the whole matter has been carried too far. Disregard for the more tangible factors of income and earnings in favor of the far less tangible factors of war and its possible longer term effects has made it possible for the discerning investor to secure a most satisfactory rate of income without the assumption of too great risks and at the same time being reasonably assured of at least a 6 per cent return at current market prices for some period of time to come. The table on page 141 sets forth a list of the more prominent companies which come under this heading and to it could be added many more if it were necessary to do so.

In formulating this list it is recognized that many of the companies will probably report earnings varying considerably from those of last year. Taxes, higher material costs and rising wages will all probably take their increasing share of operating income. But, in most cases, these companies have paid out only a smaller part of total net income after all charges, in the form of dividends to common stockholders and the most recent dividend payment rates could be maintained, even in the face of moderately lower earnings per share. And, moreover, in the case where the current return is well in excess of 6 per cent at the present time, the actual dividend rate could be reduced fairly substantially without bringing the rate of return below 6 per cent at prevailing market prices for the shares.

The securities on the list have been selected mostly for their attractive return and on the reasonable probability that if purchased at present market prices, they will continue to make a return of not less than 6 per cent per annum to their owners. No consideration has been given to growth factors, abnormal earnings due to war conditions or other items of a strictly speculative nature. Adequate and reasonably secure income has been the major condition for selection, although the past has proven that in most cases, dividend income is a prime factor in determining future market values of equities in the earlier stages of a bull market. On the whole, unless the market gets out of hand as it did in 1928 and 1929, stocks with the best and most secure income are the leaders in any upward movement of security prices. Of course, the present market is an abnormal one as far as regard for fundamentals is concerned, but it is quite possible—indeed very probable—that at least a partial return to normalcy will be witnessed during the next several months with a consequent improvement in the market value of many equity issues whose present sole recommendation is their high rate of fairly certain income.

All of the stocks presented in the table have many points which qualify them for inclusion under the conditions just outlined. It would hardly be practical to discuss each issue in detail in order to point out just what factors were responsible for their inclusion in the list. Accordingly, a few of the more representative issues will be discussed at some length; not because they are particularly outstanding in merit, but rather because they contain most of the elements which were responsible for the inclusion of the remainder of the securities.

As a case in point, let us consider Bendix Aviation Corp. Bendix has long been prominent as a manufacturer of automobile parts and accessories, but in more recent years has been sharing its total output more and more with the aviation industry. The company now supplies upward of 80 separate parts for airplanes, including many types of sensitive instruments, ignition materials, including the famous Scintilla magnetos and equipment, radio controls, etc. This is all in addition to the many hundreds of strictly automotive parts such as starters, starter parts, etc. Automobile business in general may decline for a time, but aviation business is

only beginning to expand. But even should automobile business be less—for civilian cars—every automotive vehicle manufactured will use at least several of Bendix's parts whether or not the finished vehicle is intended for military or civilian use. As far as Bendix is concerned, the demand for its automotive products will probably not be much smaller—if any—than at the present time. The demand for aviation equipment will continue to grow and will probably tax the company's production facilities to their limit for some time to come even if such production facilities are being constantly expanded. From this it would seem as if the company will be actively occupied for some time to come and thus fill the first condition that gross income, at least, will be well maintained.

Last year, Bendix Aviation earned $4.44 a share on the common stock. Of this amount, the company withheld approximately 43 per cent for corporate purposes and distributed the remainder in the form of dividends. Thus, it would be possible to reduce earnings by 57 per cent and still be able to maintain the 1940 dividend rate which gives a return of approximately 6.9 per cent at recent market prices. It is unlikely that earnings will be so substantially reduced even if a much stiffer tax rate is imposed later in the year. This is adequately indicated by the fact that the directors of Bendix have already paid $1 a share so far this year as compared with the year-end 1940 payment of 75 cents a share. It is therefore possible that the 1941 Bendix common dividend will exceed that of a year ago, but even if it should eventually be reduced to a total of $2.25 for the year, the return at current prices for the stock would still be in excess of 6 per cent.

In the case of Bullard Co., the well-known manufacturer of automatic machine tools, the situation is even more sharply defined. Bullard has on hand a backlog of unfinished orders which totalled more than $12,000,000 several months ago and has probably since increased. This represents better than a year's peak production and is many times greater than the average total year's output for a long time prior to 1940. Last year the company reported $11,025,105 net sales. Even should the demand for new machine tools terminate immediately, Bullard would still be fully occupied for at least another year. But the demand is still on the increase and will continue to be so as long as armament production in this country remains below planned levels.

Ex-Cell-O Corp.

Last year, Bullard earned $6.15 a share and paid out only $2, or approximately 32 per cent. Thus, Bullard's earnings could decrease 68 per cent without making the $2 dividend rate vulnerable. And, if you will consult the table, you can see that Bullard common stock at present market prices is selling to yield about 8 per cent on the $2 dividend rate. Here again, it is likely that earnings will be fairly well maintained in spite of extra taxes and other higher costs while dividends will probably rise further before the possibilities of a decline would call for consideration.

Ex-Cell-O Corp. is engaged in a similar business. It is best known as a manufacturer of production tools such as precision grinders, boring machines, facing machines and other special equipment; all capable of multiple operations and at least partly automatic in operation. One of the company's important peace time products is a system of machines for the bottling of milk in paper containers, although this feature now shrinks into insignificance alongside of the tremendous demand for ordinary machine equipment. At the close of March, Ex-Cell-O Corp. had a backlog of unfilled orders amounting to approximately $16,000,000, as compared with net sales of $15,968,331 for the whole of 1940. Thus, it would seem as if the company had another full year's work ahead without the receipt of any additional orders. This would be true were it not for the fact that the company's production capacity has been speeded up to a point where it is anticipated that this year's deliveries will approach $25,000,000. Such an increase in deliveries should almost automatically result in an increase in earnings despite the recently granted wage increase and higher taxes.

But, suppose earnings should not increase as the result of a better than 50 per cent increase in deliveries. Last year Ex-Cell-O earned $4.99 a share of common stock and paid out $2.30 a share, or approximately 46 per cent of net income. Therefore, a reduction of 50 per cent in earnings for this year would still leave the company with more than sufficient (*Please turn to page* 156)

Common Stocks Yielding 6 Per Cent or More

Issue	Earned Per Share 1940	Dividends Paid 1940	Divs. % of Earnings	Recent Price	Indicated Yield %	Most Recent Dividend
Allegheny Ludlum Steel	2.78	1.50	53.5	21	7.1	0.50
American Chain & Cable	2.75	2.00	72.7	19½	10.4	0.40
American Chicle	8.42	6.50	77.3	105	6.2	1.00
American Tobacco	5.59	5.00	89.3	66½	7.5	1.25
Bendix Aviation	4.44	2.50	56.9	36	6.9	1.00
Bethlehem Steel	14.04	5.00	35.7	71	7.1	1.50
Bower Roller Bearing	3.73	3.00	81.0	33½	9.0	0.75
Bullard	6.15	2.00	32.2	25	8.0	0.50
Commonwealth Edison	2.23	1.80	81.8	26	6.9	0.45
Corn Products Refining	3.11	3.00	96.9	46	6.5	0.75
Dresser Manufacturing	3.57	2.00	55.5	19	10.5	*
Endicott Johnson	3.20	3.00	93.7	42	7.1	0.75
Ex-Cell-O Corp	4.99	2.30	46.0	24	9.6	0.65
General American Transportation	4.11	3.00	73.3	48½	6.2	*
General Motors	4.32	3.75	88.4	38	9.8	0.75
Household Finance	7.11	5.00	70.4	54	9.3	1.25
International Nickel	2.31	2.00	87.0	25½	7.9	0.50
Jewel Tea	2.82	2.40	85.6	33	7.3	0.60
S. H. Kress	2.09	1.60	76.2	24	6.7	0.40
Kroger Grocery	2.49	2.00	80.0	26	7.7	0.50
Loew's	4.82	3.00	62.5	30	10.0	0.50
May Department Stores	3.52	3.00	85.7	50	6.0	0.75
Penney, J. C	5.91	5.00	84.7	78½	6.4	0.75
St. Joseph Lead	2.62	2.25	88.4	29½	7.6	0.50
Savage Arms	6.13	4.00	65.5	50½	7.9	0.75
Spicer Manufacturing	6.36	2.50	39.0	29½	8.5	0.75
Square D	4.56	2.80	60.8	34	8.2	0.50
L. S. Starrett	4.94	3.25	67.3	37	8.8	1.00
Sterling Products	5.30	3.90	73.6	55½	7.0	0.95
Texas Gulf Sulphur	2.38	2.50	105.0	34	7.4	0.50
Thompson Products	5.17	1.75	33.8	26	6.7	0.50
Timken Detroit Axle	3.69	3.25	89.9	30	10.8	1.00
United Fruit	5.10	4.00	78.4	62½	6.4	1.00

* None declared for 1941 to date.

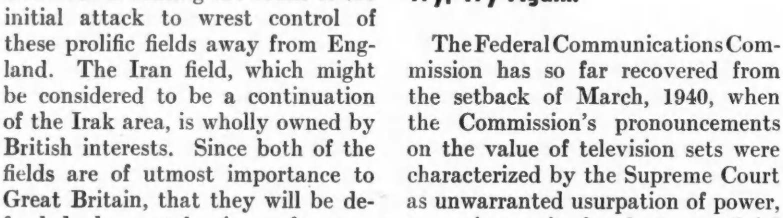
For Profit and Income

American Oils Abroad

As the war pushes to the East, it encompasses the highly important oil fields of Irak and Iran. The Irak field—said to be the largest single oil field in the world—is partly owned by American interests through the holdings of Standard Oil of N. J., Socony-Vacuum and several other subsidiaries of American companies. This area is bearing the brunt of the initial attack to wrest control of these prolific fields away from England. The Iran field, which might be considered to be a continuation of the Irak area, is wholly owned by British interests. Since both of the fields are of utmost importance to Great Britain, that they will be defended desperately is a foregone conclusion. But what the final outcome of the matter may be is uncertain. What is more certain is that as a producer of revenue for the American part-owners of the Irak field, the prospect is not bright for the immediate term and thus constitutes another item that must be further considered in appraising the outlook for American oils abroad at this time.

Try, Try Again.

The Federal Communications Commission has so far recovered from the setback of March, 1940, when the Commission's pronouncements on the value of television sets were characterized by the Supreme Court as unwarranted usurpation of power, to again try its hand at an official ukase anent a portion of the radio industry which the high court clearly indicated did not come within the province of the Commission or the intent of the law under which the Commission is supposed to act. This time the regulating body has proscribed the manner in which National Broadcasting Company conducts its broadcasting affairs and has arbitrarily ordered the dissolution of one of the networks on the penalty of revocation of license of each unit of the network which fails to comply. Since the Supreme Court in its unanimous decision of last year pointed out that the only power of the Commission was to pass upon the qualifications of a broadcaster requesting a license and had no regulating powers of those already operating, it is difficult to see how the Commission's edict can be made to stick. In the meantime, however, the system and its affected members will be put to considerable legal expense in order to obtain a stay of execution until the case can again come up in court.



Opening of its newest plant at Caldwell, N. J., makes Curtiss-Wright Corp. the largest airplane propeller manufacturer in the country. An even larger plant is currently under construction and should be completed later in the summer.

Prospective New Financing

Radio-Keith-Orpheum is contemplating the simplification of its capital structure and for this purpose is seeking approximately $9,500,000. If sufficient funds are obtained, they will be used to retire a part of the subsidiary funded debt and preferred stocks.—Driver-Harris Co. is expected to retire approximately one-third of its 7 per cent dividend preferred stock some time during June. The entire issue is relatively small, being currently outstanding in the amount of about $900,000.—United Gas Co., subsidiary of Electric Bond & Share, has filed application to issue

ivately $75,000,000 of 3¼ per cent onds. The bonds will mature in 58 and the proceeds used to retire esent indebtedness. Electric Bond Share will receive about $54,000,-0 of the principal amount and oposes to add about $6,000,000 of s own funds to retire a part of its eferred stocks either by tender, pen market purchase or on a pro-ta basis.

o They Say

Railroad car-loadings are expected o reach a peak some time during 943. The Association of American ailways has advised its members o acquire at least 270,000 new eight cars and 120,000 of this num-er before the close of 1942. I C C Chairman Joseph Eastman warns he roads that failure to fully carry their share of the burden of defense may mean eventual federalization. The same threat goes for the trucks and the pipe lines who are expected to help take up the slack caused by the diversion of coastwise water shipping to overseas service.—Results of sales of defense bonds will probably begin to be released some time this week.—Illinois will probably fall in line in the matter of oil production proration. Regulation will, however, apply only to new wells and not to those already in production or being drilled.—Most of the 20 per cent gain in gas sales made by Brooklyn Union Gas during the first quarter of this year was the result of increased activities at the Brooklyn Navy Yard.—Mounting unfilled orders for government steel will soon serve to oust many civilian orders.—Another stock exchange seat has been sold for $20,-000; unchanged from the last sale on May 1 but at the low point for many years back.

Copper Stopped

Price Administrator Henderson has announced that it is agreed with the N. Y. Commodity Exchange that the "standard" price for copper will henceforth be not more than 11½ cents a pound. The "standard" price means the base from which all other prices are figured as for instance, "Connecticut Valley" prices are always quoted 1 cent higher than "standard" and would thus be 12½ cents a pound under the new agreement. That is the present price for copper but the Administrator has a much more powerful weapon at his command than the agreement. The willingness of the Government to sell foreign copper to the Valley fabricators at the standard price will do more to hold domestic prices at close to present levels than any agreement with any commodity exchange or similar body.

British Owned Shares as Yet Unsold

Some of the more important British owned American shares whose complete liquidation has not as yet been announced. There are many other securities yet to be sold but this list represents most of the more prominent securities.

*Adams Express
Addressograph-Multigraph
Allied Stores
Allis Chalmers Manufacturing Co.
American Home Products
American Rolling Mill
American Smelting & Refining
American Telephone & Telegraph
American Tobacco
*Anaconda Copper
Atlantic Refining Company
*Borg-Warner Corporation
Chrysler
Coca-Cola
Commercial Investment Trust
Consolidated Edison
Continental Can
Creole Petroleum
Curtiss-Wright
Eastman Kodak
General American Transportation
General Electric
General Motors
Ingersoll Rand
Inland Steel
International Harvester
Johns-Manville
Lambert Co.
Liggett & Myers
Loew's, Incorporated
Macy (R. H.) & Company
*National Dairy Products
National Distillers
New York Central
*Pennsylvania Railroad
Phillips Petroleum
Procter & Gamble
Public Service, New Jersey
*Purity Bakeries
Radio Corporation
St. Joseph Lead
Sears, Roebuck
Sherwin-Williams
Socony-Vacuum
Southern Pacific
Sterling Products
Timken Roller Bearing
Union Oil (California)
Westinghouse Airbrake
Woolworth Company

* Some sales have already been reported although the bulk still remains for disposal.

Excise Taxes on Automobiles

Mr. Henderson, in another statement, favored the imposition of a 20 per cent or higher sales tax on automobiles in the interest of conservation of materials for defense. He included a number of other items as being inimical to defense requirements and among them were electric refrigerators, washing machines, musical instruments, etc. Items which did not interfere with defense efforts and accordingly should not be excessively taxed were candy, entertainment tickets, tobacco products, telephone calls, etc. Mr. Henderson was of the opinion that nearly a 600 per cent increase in sales taxes on automobiles would not discourage sales to a point where the industry could not dispose of every unit it was permitted to produce. He also opposed a further tax on gasoline and characterized the current tax as "too high." There is a wide difference of opinion between Mr. Henderson and the Treasury on the subjects which are primarily of interest to the latter.

April Heavy Engineering Construction at a Record High

According to the statistics of Engineering News-Record, heavy engineering construction during the month of April totaled $381,563,000, the highest volume for any April since that authority compiled records. The April total was below that of March even if it was a new record. Last April, Federal construction was at record low levels so the fact that recent Federal contracts were nearly 10 times higher than a year ago made that branch of the industry the greatest gainer. However, other branches, private and public, were also higher than a year ago with public construction—102 per cent higher—being the greatest gainer. State and municipal construction. The four-month total for a year ago but in its turn was better than in March, as was private construction was modestly lower than all construction was at a new high

(*Please turn to page* 159)

For Profit and Income

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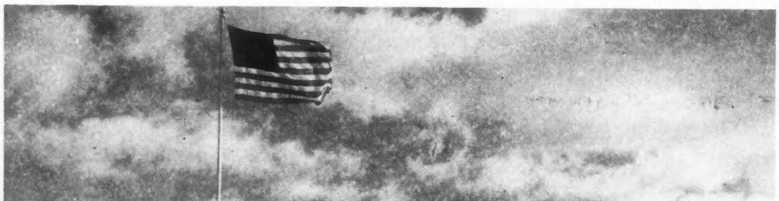

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privately $75,000,000 of 3¼ per cent bonds. The bonds will mature in 1958 and the proceeds used to retire present indebtedness. Electric Bond & Share will receive about $54,000,000 of the principal amount and proposes to add about $6,000,000 of its own funds to retire a part of its preferred stocks either by tender, open market purchase or on a pro-rata basis.

So They Say

Railroad car-loadings are expected to reach a peak some time during 1943. The Association of American Railways has advised its members to acquire at least 270,000 new freight cars and 120,000 of this number before the close of 1942. I C C Chairman Joseph Eastman warns the roads that failure to fully carry their share of the burden of defense may mean eventual federalization. The same threat goes for the trucks and the pipe lines who are expected to help take up the slack caused by the diversion of coastwise water shipping to overseas service.—Results of sales of defense bonds will probably begin to be released some time this week.—Illinois will probably fall in line in the matter of oil production proration. Regulation will, however, apply only to new wells and not to those already in production or being drilled.—Most of the 20 per cent gain in gas sales made by Brooklyn Union Gas during the first quarter of this year was the result of increased activities at the Brooklyn Navy Yard.—Mounting unfilled orders for government steel will soon serve to oust many civilian orders.—Another stock exchange seat has been sold for $20,000; unchanged from the last sale on May 1 but at the low point for many years back.

Copper Stopped

Price Administrator Henderson has announced that it is agreed with the N. Y. Commodity Exchange that the "standard" price for copper will henceforth be not more than 11½ cents a pound. The "standard" price means the base from which all other prices are figured as for instance, "Connecticut Valley" prices are always quoted 1 cent higher than "standard" and would thus be 12½ cents a pound under the new agreement. That is the present price for copper but the Administrator has a much more powerful weapon at his command than the agreement. The willingness of the Government to sell foreign copper to the Valley fabricators at the standard price will do more to hold domestic prices at close to present levels than any agreement with any commodity exchange or similar body.

Excise Taxes on Automobiles

Mr. Henderson, in another statement, favored the imposition of a 20 per cent or higher sales tax on automobiles in the interest of conservation of materials for defense. He included a number of other items as being inimical to defense requirements and among them were electric refrigerators, washing machines, musical instruments, etc. Items which did not interfere with defense efforts and accordingly should not be excessively taxed were candy, entertainment tickets, tobacco products, telephone calls, etc. Mr. Henderson was of the opinion that nearly a 600 per cent increase in sales taxes on automobiles would not discourage sales to a point where the industry could not dispose of every unit it was permitted to produce. He also opposed a further tax on gasoline and characterized the current tax as "too high." There is a wide difference of opinion between Mr. Henderson and the Treasury on the subjects which are primarily of interest to the latter.

April Heavy Engineering Construction at a Record High

According to the statistics of Engineering News-Record, heavy engineering construction during the month of April totaled $381,563,000, the highest volume for any April since that authority compiled records. The April total was below that of March even if it was a new record. Last April, Federal construction was at record low levels so the fact that recent Federal contracts were nearly 10 times higher than a year ago made that branch of the industry the greatest gainer. However, other branches, private and public, were also higher than a year ago with public construction—102 per cent higher—being the greatest gainer. State and municipal construction. The four-month total for a year ago but in its turn was better than in March, as was private construction was modestly lower than all construction was at a new high

(*Please turn to page* 159)

British Owned Shares as Yet Unsold

Some of the more important British owned American shares whose complete liquidation has not as yet been announced. There are many other securities yet to be sold but this list represents most of the more prominent securities.

*Adams Express
Addressograph-Multigraph
Allied Stores
Allis Chalmers Manufacturing Co.
American Home Products
American Rolling Mill
American Smelting & Refining
American Telephone & Telegraph
American Tobacco
*Anaconda Copper
Atlantic Refining Company
*Borg-Warner Corporation
Chrysler
Coca-Cola
Commercial Investment Trust
Consolidated Edison
Continental Can
Creole Petroleum
Curtiss-Wright
Eastman Kodak
General American Transportation
General Electric
General Motors
Ingersoll Rand
Inland Steel
International Harvester
Johns-Manville
Lambert Co.
Liggett & Myers
Loew's, Incorporated
Macy (R. H.) & Company
*National Dairy Products
National Distillers
New York Central
*Pennsylvania Railroad
Phillips Petroleum
Procter & Gamble
Public Service, New Jersey
*Purity Bakeries
Radio Corporation
St. Joseph Lead
Sears, Roebuck
Sherwin-Williams
Socony-Vacuum
Southern Pacific
Sterling Products
Timken Roller Bearing
Union Oil (California)
Westinghouse Airbrake
Woolworth Company

* Some sales have already been reported although the bulk still remains for disposal.

The Finance Companies: War Casualty No. 2

Facing Decline in Installment Sales Volume and Lower Profits

BY JESSE J. HIPPLE

CONTRARY to the almost general belief, installment buying is not new; in one form or another it has been practiced in foreign countries for untold ages and even in this country, there are records of installment sales dating back 130 years or more. But such records of centuries of experience are useless for present comparison, since they covered but few transactions in a small number of commodities, as compared with the present-day practice of financing the purchase of almost any kind of consumer goods and even professional services.

While it has been possible to purchase furniture, sewing machines, pianos and similar objects on deferred payments for many years back, it was the popularization of the automobile that gave the installment credit business its start toward its present position in the nation's economy. And because the automobile did not become generally available to any but the higher income groups of consumers until after the first World War, definite experience under a war economy is lacking. The industry has passed successfully through two depression periods—1920 and 1930 to 1934—without any appreciable losses. But at no time in the comparable past has there been a potential shortage of salable merchandise nor official efforts to divert consumer buying away from the materials which form the stock in trade of the installment sellers. Now this threat arises and it is unlikely that the installment finance companies can surmount such difficulties and continue to grow and prosper.

Since the automobile represents the largest unit value in general installment sales, anything that might interfere with the orderly production and sale of these machines must have a strong bearing upon the prospects of the finance companies. The latest statistics of the Department of Commerce indicate that approximately 74 per cent of all the installment paper sold covers automotive transactions. Other sources indicate that between 50 per cent and 60 per cent of all of the automobiles manufactured are sold on partial payments. Hence, a reduction of 20 per cent in the number of automobiles manufactured would almost automatically result in a 15 per cent reduction in the volume of installment business transacted in this field alone. Were this the only adverse possibility, it is probable that the installment finance companies could surmount it. But such is not the case.

The recently announced voluntary reduction in output of civilian vehicles by the automotive industry is only the beginning. The automobile manufacturers are proving themselves to be remarkably efficient manufacturers of munitions and other defense materials and it is not likely that they will be permitted to let normal activities interfere with their government orders. Priorities and scarcities of certain important automotive materials will see to that, even if it is not accomplished by official pronouncement. On the whole, the purchase of new automobiles by the public is going to be discouraged, so that those with the ability to buy will purchase, instead, defense bonds or similar obligations of the Government which might help to finance its great defense expenditures. Excise taxes of punitive proportions on the sale of new cars and higher individual income taxes will materially

Automobile Financing by Finance Companies

Year	Total Automobile Sales (units)	Total Sales Financed (units)	Total by Finance Companies (units)	Value of Cars Financed (dollars)	Average Value of Notes (dollars)
1940	10,500,000	5,950,000	4,040,000	$1,740,000,000	$431
1939	8,840,000	5,100,000	3,355,000	1,363,000,000	406
1938	7,130,000	3,894,000	2,617,000	1,011,000,000	386
1937	10,859,000	6,280,000	4,200,000	1,721,000,000	410
1936	10,606,000	6,301,000	4,264,000	1,716,000,000	402
1935	8,391,000	5,103,000	3,126,000	1,158,000,000	371
1934	5,964,000	3,373,000	2,419,000	894,000,000	369
1933	4,837,000	2,747,000	1,828,000	627,000,000	349
1932	3,651,000	1,813,000	1,522,000	536,000,000	352
1931	6,013,000	3,685,000	2,448,000	950,000,000	388
1930	7,690,000	4,861,000	2,990,000	1,228,000,000	409
1929	9,757,000	6,145,000	3,548,000	1,617,000,000	456
1928	7,554,000	4,498,000	2,466,000	1,196,000,000	485

Sources—Dept. of Commerce, N. A. Sales Finance Cos., Standard Statistics Co.

assist the Government in achieving its purposed as far as automobile sales are concerned.

Income taxes have a heavy bearing upon automotive sales; and, of course, on the sale of almost all other materials purchasable under the partial payment plan. It is understandable that approximately 57 per cent of all the automobiles purchased "on time" are sold to the group whose annual incomes range from $1,500 to $3,000, for this represents the large middle-class who want a little more than the necessities of life. But the income taxes of the past have touched only slightly on this group as a whole and frequently not at all. Now things are different as far as taxes are concerned and likewise the middle-classes' ability to spend as before. This group will probably be the hardest hit of any by the now proposed taxes. Higher taxes mean lower living standards and lower living standards mean that the old car will have to do, especially if a new one not only costs more to buy but also another high excise tax must be paid before it can be taken away. Lower consumer income and higher selling prices are not conducive to increased automobile sales and lower automobile sales do not help finance company profits.

Before leaving the subject of consumer buying power and consumer goods it should be pointed out that the next largest unit value in installment sales also faces conditions quite similar to those which prevail in the automotive industry. This most popular item is the electric refrigerator. The refrigerator industry has already run afoul of priorities in the matter of aluminum used for trays and freezing chambers, and may find it increasingly difficult to obtain copper, steel and rubber—all of which are integral parts of the product. Moreover, the electrical refrigerator cannot strictly qualify as even a semi-necessity in an emergency as can the automobile, by virtue of the fact that workers must have transportation facilities if they are to be able to produce. Almost 76 per cent of the electrical refrigerators sold on time are taken by the group whose incomes range from $1,000 to $2,500 and while the unit cost is much smaller than that of an automobile, it happens to be approximately the same as the individual's potential share of taxes in many instances. It needs only one guess as to which expenditure will be deferred. And so it goes with almost every consumer goods item upon the sale of which the installment sellers depend.

The Government, of course, recognizes the fact that when consumer gross incomes mount there is an increasing tendency upon the part of the consumer to extend his credit through the purchase of real or fancied necessities. Such tendencies are in themselves inflationary and since the Government must avoid inflation, it must discourage needless consumer purchases. Such an objective cannot be accomplished—yet—by official edict forbidding the purchase of certain goods, but the Government has many weapons at its command which should be almost equally as effective and at the same time less irritating to the average citizen.

Since ample supplies of ready cash are the prime requisite for conducting a finance company business, anything that might restrict the quantity of this commodity available to them would correspondingly reduce the companies' capacity to do business. Most of the finance companies do business on borrowed capital; frequently using the installment paper purchased as the collateral for more loans. The turnover of funds is fast and most banks are glad to take any available amount of good installment paper because of the relatively high rate of interest obtainable. Also many banks act as finance companies for the purchase of such major items as automobiles, oil burners and similar higher priced items and so secure almost all of the admittedly high financing costs for themselves. Thus it is in this particular spot that the finance companies are highly vulnerable.

All that would be necessary for the Government to do to reduce the amount of funds available to the finance companies would be to pass legislation limiting the amount of installment papers which any national bank could hold. This restriction is already in effect as far as security loans for brokers are concerned and could readily be enforced in connection with installment paper. With so many of the banks themselves in the finance business it can readily be seen that the reduction would apply to the independent finance companies with the fullest force.

Other legislation which would inhibit the volume of finance company business would be aimed at increasing the amount of the down-payment required, reducing the time over which the installment contract is written and granting of moratoriums on payments and repossessions to these who migh be called to service in the armed forces of the country if war should be declared. All of these things are not pure conjecture. Many of them are actually near term possibilities.

Thus far we have only touched upon the prospects of reduced business from an economic standpoint. Naturally, smaller business means smaller profits but there is also the possibility that profit margins are scheduled to decline and thus further re- (*Please turn to page* 158)

Another Look At . . .

ATLAS POWDER — CHAMPION PAPER & FIBRE
BLACK & DECKER — U. S. HOFFMAN MACHINERY
TEXAS PACIFIC COAL & OIL

Atlas Powder Company

Despite an increase of more than 800 per cent in Federal tax payment provisions during the first quarter of this year, Atlas Powder Company was still able to report a 20 per cent gain in net income as compared with a year ago, after all charges. In the initial three months of this year, the company made a net operating profit of $1,472,489 as against $431,885 in the initial quarter of 1940. Total income—after every charge except reserve for taxes and including income from investments—was $1,486,282 or nearly $1,040,000 higher than a year ago. Against this amount, the company set up tax reserves of approximately $750,000 to cover present tax requirements and in addition, reserved another $200,000 for increased taxes which are expected to be levied in the near future. In other words, the company expects that it will have to pay out close to 70 per cent of its net income in taxes if the anticipated tax increases materialize.

The balance sheet as of March 31 showed a further improvement over that of the year end and a much wider gain over the position of a year ago. At the latest date, total assets were carried at $27,552,113 or $1,500,000 more than at the outset of the year. About half of the gain was made in cash which rose to $5,109,357 from $4,365,690 on January 1, while inventories were approximately $300,000 higher at $3,800,613. Current liabilities were also somewhat higher but, on the whole, net current assets of approximately $8,798,227 were about $300,000 higher than previously.

During the first three months of the current year, sales were about 80 per cent higher than a year ago and totalled $7,411,458. Projected on an annual basis, 1941 bids fair to be a banner year as far as sales are concerned. Earnings, restricted by mounting taxes, will not keep pace with increases in sales although they too, should be moderately higher. Of more importance to the investor is the fact that the company will continue to operate at close to full capacity for a considerable period. While commercial needs for explosives are expected to be no smaller over the next several years, the demand for military explosives shows no signs of near term abatement and indeed, promises to grow larger as more equipment becomes available. The company's shares are well priced on earnings but in the event of better markets, could show a considerable improvement in market value. While they are not particularly attractive for immediate purchase, there do not appear to be any uncertainties of sufficient magnitude to warrant liquidation of shares already owned.

Champion Paper & Fibre Company

Champion Paper & Fibre Company is one of the leading manufacturers of book paper as well as a varied line of specialties which includes card board, milk and butter containers and magazine printing stock. Magazine paper is an important contributors to sales volume. The entire output of one plant—35,000 tons yearly—is contracted for by one of the largest of the national magazines for a period of five years from 1940. The company is a completely integrated unit owning its own pulp mills, timber lands and paper manufacturing facilities. The Texas plants are among the pioneers in the development of usable pulp from southern pine. Due to the diversity of the company's products, Champion Paper & Fibre Co. has long been regarded as one of the most stable in the industry. Nevertheless, earnings do respond to cyclical influences, although not with quite the violence that is characteristic of the paper industry as a whole.

The company's fiscal year ends on April 30 and, accordingly, actual figures for the fiscal year just completed are not as yet available. There are indications, however, that the 1940-1941 year was one of the most profitable experienced in some years past despite the fact that earlier in the year the company suffered flood damage at its Canton, North Carolina, plant to the ex-

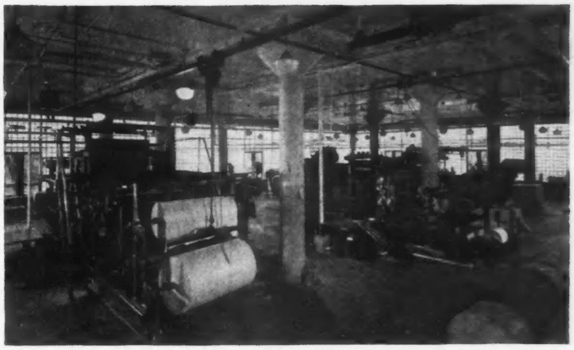
tent of about $387,000. Including the flood loss, the company earned approximately $1,829,634 in the first 40 weeks of the recent fiscal year as compared with about $1,212,654 in the previous comparable period. The latest earnings were equivalent to about $2.59 a share as compared with $1.52 a share a year ago. The income for the previous 40 weeks' period included $401,756 non-recurring income derived from the proceeds of life insurance policies. Thus the comparison of earnings with extraordinary items excluded makes a sharply better showing and serves to indicate the strong improvement in the company's earning power, favored by prevailing trade conditions. Higher taxes did not play an important part in last year's earnings due to the company's fiscal period. But, they will do so this year and will probably hold net income in check despite the fact that operations are still running at better than 90 per cent of capacity. The shares have not been particularly active of late but when traded have sold at very reasonable levels, considering earnings and the better-than-average record of this paper manufacturing company.

Black & Decker Manufacturing Company

As a manufacturer of a widely diversified line of electrically operated hand tools, this company continues to operates at top capacity in order to keep up with ever-increasing demand. Both the aviation and shipbuilding industries are avid consumers of such tools and Black & Decker is perhaps their leading manufacturer in this country. Although the tools are as ruggedly built as possible, they wear out under constant use in a comparatively short period of time, thus furnishing the company with an active replacement and parts business not ordinarily enjoyed by machine tool manufacturers. A line of small non-portable machine tools and fractional horse-power electric motors completes the company's list of products.

While Black & Decker is currently favored by prevailing industrial conditions, such has not always been the case. The pattern of earnings follows closely industrial activities, and the "feast or famine" feature of the industry has been as applicable to this company as it has for most of the others that operate in the field. Last year was one of the company's more saitsfactory periods, with earnings for the fiscal period ended September 30, 1940, totalling approximately $1,065,095 or $2.82 a share of common stock. Income was sharply better than in the previous fiscal period when $1.60 a share was reported and was almost identical with the results for the 1937 period which was the best year since 1929.

Due, of course, to the fact that the company's fiscal year does not coincide with the calendar year, excess profits and higher corporate taxes did not take toll of earnings in the 12 months completed last Fall. This year's earnings will be subject to the higher rates but, again, any increase in the present tax rates probably will not apply until after next September. However, despite the fact that new taxes were provided for in the most recent earning statement, net income in the first quarter of the fiscal year was approximately 50 per cent greater than that of a year ago and was equivalent to $0.72 a share as compared with $0.48 a share a year ago. On that basis, it would seem that the company's business



will continue to be sufficiently active to make a new-record-high earnings possible. The latest dividend payment of $0.40 a share indicates that for the calendar year at least $1.60 a share can be expected and to this amount will probably be added a year-end distribution in line with the amount actually earned. At current levels, the shares are selling at approximately five times probable 1941 earnings. This is more in recognition of the longer term uncertainties which might tend to overbalance the excellent dividend return and nearer term prospects.

United States Hoffman Machinery Corp.

U. S. Hoffman Machinery Corp. continues to make its regular line of products, which include clothes pressing and dry cleaning machinery, laundry equipment and similar devices, to the exclusion of purely defense materials but has, nevertheless, shared in defense business to a moderate extent. Government orders have mainly been for laundry machinery and other regular products of the company. Their total value at the beginning of the year was approximately $1,200,000 of which $873,000 of laundry machinery was for delivery during the first six months of this year while the remainder is to be delivered at a deferred date.

Government orders will help the company to maintain a high rate of operations, but regular civilian demand for the company's materials has been the greatest factor in sharply increasing sales. For the first three months of this year net sales totalled $2,472,208 as compared with $1,279,618 for the same period of 1940. Net sales were therefore almost 100 per cent higher than a year ago, but net profit of $369,258 in the latest quarterly period was more than four times greater than a year ago, indicating greater operating efficiency. Taxes, as was the case with every industry, were higher in the first quarter—almost seven times greater—but withal, the company was able to bring $237,144 down to net income after all charges, or the equivalent of $1 a share on the common stock currently outstanding. This compared very favorably with earnings of $0.15 a share for the same period of a year ago.

Since much of the company's business is conducted on the installment payment plan, it is not surprising that heavily increased sales have resulted in markedly higher bank loans. Bank obligations at the end of March totalled $3,000,000 as compared with $1,850,000 at the end of March, 1940. Against the bank loans were net installment accounts receivable (*Please turn to page* 157)

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American Brake Shoe & Foundry Co.

I show a small profit on my 125 shares of American Brake Shoe having made my purchase at 26 last year. Now with this stock having made a new low for 1941, despite capacity operations, I am wondering whether this dip is a forerunner of further weakness that I can avoid by selling out. Do you believe that higher taxes and costs plus the influence of a reduction in automobile production will result in a decline in earnings from the $3.49 per share earned in 1940? How should the new flotation of common and preferred stock affect present holders of the common stock? How is business currently holding up from sources other than for defense purposes? Do further expenditures for expansion of facilities appear likely? Is this Company at a point where a "top out" in production and profits is a near term probability? Please give me your opinion.—A. N., Jamestown, N. Y.

Net earnings before depletion and income taxes for American Brake Shoe & Foundry Co. for the first quarter ending March 31, 1941, were $1,716,244 as compared with $1,062,847 for the comparable period of 1940. Taxes during the period showed a sharp increase from $130,000 to $385,000 including $70,000 for Excess Profits Taxes on an estimated basis in the first quarter of 1941. This was equivalent after preferred dividends to $1.06 per share for the first quarter of 1941 as compared with 66 cents for the comparable period of 1940. For the full year 1940, net earnings were $2,968,498 which after provision for preferred dividends equalled $3.49 per common share. This compares with 1939 earnings of $2,121,173 or $2.39 per share. For the year 1940 it was estimated that company's invested capital base under excess profits tax law was approximately $35,000,000 and therefore this tax would be less than $25,000. It was considered prudent management to set up an additional reserve for these taxes and including this reserve all ascertainable taxes, Federal, State and local were approximately $1,700,000 or $2.20 per common share. Shipments totalling approximately $31,574,000 exceeded the previous year's shipments by 28%. In the first six months the increase was 20%, in the third quarter 36% and in the fourth quarter 32%, while present shipments are at a rate somewhat exceeding the peak of 1929. Unfilled orders at the year end were reported to be $6,400,000 and distributed 48% railroads, 3% electrical railway, 21% automotive and tractor, 14% mining, refining and excavating, while miscellaneous accounts for approximately 14%.

National defense orders in a strict sense were chiefly for shell forgings and amunoted to approximately $2,600,000 of which $500,000 was shipped during the year, the balance scheduled over the first ten months of 1941. The railroads and other customers serviced by American Brake Shoe & Foundry Co. are essential to the preparedness program and by expanding, improving and modernizing their facilities, the business should be considered as indirect defense work. Profits on this type of business are somewhat greater and with the increase in carloadings and expansion of business in general, it is believed that results in 1941 will continue to expand. In an effort to round out the facilities of the forge division, the Great Lakes Forge Co. was purchased in April, 1940. This plant rounds out the facilities and increases the capacity of this division by approximately 60%.

As of March 31, 1941, total current assets of the company amounted to $16,274,617 which included cash of $3,969,946 as compared with total current liabilities of $3,656,408. Capitalization of the company is relatively simple with no funded debt. Convertible 5½% cumulative preferred stock, par $100, and callable at $125 is outstanding to the extent of 54,633 shares. Common stock without par value is outstanding to the extent of 769,092 shares. These figures do not take into consideration the offering of 43,706 shares of preferred stock and 87,352 shares of common. While it is possible that with the additional stock

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outstanding earnings may contract somewhat, such is not believed likely in view of the increasing tempo of output.

With unfilled orders as of April 1, 1941, approximating $8,500,000, railroads carrying an increasing amount of freight necessitating continued repairs and replacements, expansion and intensification of our rearmament efforts and our all-out aid to the Democracies, we feel that the future for this company is favorable. It does not appear that earnings are topping out, although general technical market conditions may adversely affect the price for the issue, and we feel that the future over the near term for this company is sufficiently promising to warrant retention of your present holdings.

United States Pipe & Foundry Co.

Do your analysts counsel retention of U.S. Pipe, for an investor who bought his investment in this company at 31? Do your analysts believe that this stock, allowing to some degree for the general depressed condition of the market, has around present levels discounted influences favoring sustainance of earnings at 1940 levels—in 1941? Or, do your analysts believe that this company is destined for progressively higher earnings for some time to come, not yet realized in the price of this stock? Is business at present primarily from U. S. Army cantonment construction? Has the Company yet to feel the major effects of a small home building boom? Is advised opinion of the belief that a post-war period will bring on a public works program which will greatly benefit this Company? Kindly analyze this entire situation for me and advise whether to sell or hold.—B. B., Reno, Nev.

For the year which ended December 31, 1940, United States Pipe & Foundry Co. reported a net income of $2,403,805, equivalent to $3.45 per share, as compared with $2,570,279 or $3.69 per share in the year 1939. In connection with the reduced earnings it should be noted that total corporate taxes either paid, or reserved to be paid, to various political divisions of the Government amounted to approximately $1,234,000 in 1940, as compared with $760,000 in 1939, and were more than the combined general administrative and selling costs of the company. Gross sales during the year were 11.9 per cent greater than in 1939. Business volume in the first quarter of the year was not outstanding, but there was a marked improvement in the tonnage sold during the last part of the year and at the close of 1940 unfilled orders were greater than they have been for many years.

In the past a large part of the output has been taken by the P W A projects. Since this work is somewhat curtailed at this time, it is believed that increased private building and expansion of cantonments and military buildings is more than offsetting this decline. Export business showed a substantial increase, particularly to South American countries. Due to our good neighbor policy and the increasing importance of South American countries. in the program tying together more closely all of the countries in the Western Hemisphere, it is felt that earnings from this source will continue to increase over the near-term. In the annual statement of the company it was reported that it would be unwise due to tax uncertainties to follow the procedure of many years by declaring at the January meeting dividends payable throughout the year 1941. The company did declare a dividend of 50 cents per share payable March 20 to stockholders of record February 28. Subsequent to that time another dividend of 50 cents per share has been declared and it appears that the company will follow this procedure in declaring quarterly payments for the balance of the year with the possibility of an extra dividend if earnings warrant.

The financial position of U. S. Pipe & Foundry Co. is quite strong with total current assets at the close of 1940 amounting to $11,546,151, including $4,870,432 in cash compared with total current liabilities of $2,067,754. The capitalization of the company is very simple since there is no funded debt or preferred stock outstanding. Common stock with a par value of $20 per share is outstanding to the extent of 695,923 shares. During the year 1940 net additions to plant assets approximated $255,392. Inventories, consisting of pig iron and finished salable products, was somewhat less than at the previous year-end.

It is believed that 1942 results for this company which is the ranking organization engaged in the manufacture of cast iron pipe used largely in the construction of sewerage disposal systems and artificial gas and water mains and manufacturing of lesser important miscellaneous castings and equipment for the chemical, fertilizer and sugar industry will compare quite favorably with 1940. It is the outspoken will of the Government to institute and to lay plans and foundations for a substantial building program to be inaugurated at the close of the European conflict. Such an event would be most helpful to this company. Therefore it is our opinion that you should continue to maintain your investment position in this company's stock at this time. The dividend policy in the past has been liberal and earnings, while fluctuating at times, have been more than ample to cover these distributions to stockholders.

National Gypsum Co.

Do your analysts regard the appreciation prospects for National Gypsum now at 5¾ as outstanding among stocks with speculative appeal today? I have 150 shares of National Gypsum for which I paid 18. Can you tell me whether the 50% gain in sales last year is likely to continue or be increased to an extent which will equal or better the $1.03 earned in 1940? I understand that sales for defense construction only amounted to 5% of the Company's total volume last year—has this been increased since? What should assumption of control of the Chemical Lime Co.—acquisition of the Newburgh Paper Mill—General Insulating & Materials Co. mean to earnings? Are production economies and high volume likely to offset higher taxes, labor, and material costs? Your advice will be valued.—E. F., Washington, D. C.

In the first quarter of 1941 National Gypsum Co. made a net profit of $349,255, after taxes at present rates. This compares with $90,545 for last year. Earnings, after allowing for preferred dividends, amounted to 22 cents per share on the common stock, compared with 2 cents a share a year ago. This increase was in spite of a major increase in taxes which rose 265 per cent during the quarter. The profit increase was due mainly to an increase in sales of 49% and improvement in plant efficiency. In the year 1940 the company earned $1,565,196, as compared with $1,455,237 in the year 1939. After provision for Federal and Dominion taxes and payment of preferred dividends, net earnings amounted to $1.03 per share on the common stock, compared with 94 cents per share for the year 1939. Taxes continue to increase at an accelerated tempo. Direct taxes, including those deducted from income, amounted to $828,362, compared with $544,623 in 1939, rising approximately 52 per cent during the year and amounting to ap-

proximately 66 cents per share on the common stock. Labor and material costs also increased during the year 1940 and since it was not possible to pass these costs on to consumers, profit margins showed some contraction. This item was offset somewhat by greater volume, more efficient production and economies from additional equipment. Additions and improvements in various of its 18 mills amounted to approximately $2,381,164 in the year 1940.

The paper mill which was recently purchased at Newburgh, New York, is expected to give the company's Atlantic Seaboard mills a continuous supply of low-cost high quality paper, essential to the manufacture of board. The company also assumes control under a long-term lease of certain lime properties previously owned by the Chemical Lime Co. of Bellefonte, Penna., which, under terms of the lease, may be purchased in the future. When improvements are completed on this property, which has large deposits of excellent quality limestone, the company will be in a position to compete for a much larger lime market which is essential in the manufacture of steel products. In the past the company has been selling rock wool which was purchased from outside manufacturers. Through the purchase of General Insulating and Manufacturing Company, makers of rock wool, having sales of approximately $1,200,000 last year, the company appears to be in a better position not only from a profit margin base, but also for increasing output of this product. The competitive position will be improved too, since the leased company has been in this business for over twenty-five years and pioneered in the manufacture of this product which is used in home insulation and is distributed through building material dealers. While only about 5 per cent of the company's total business in 1940 was for defense work, much of their business has been coming indirectly as a result of our rearmament program. With the plans of the Federal Government to institute a vast building program upon the expiration of the war and due to the enlargement of cantonments over the near term National Gypsum Co. should receive a sizable benefit from such a program.

At the close of 1940 capitalization of the company was represented by $5,774,000 of 3 per cent sinking fund debentures due in 1955. Equity interests were represented by 61,550 shares of no par cumulative preferred stock, carrying a $4.50 dividend rate, as well as 1,261,458 shares of $1 par common stock. On February 24, 1941, an application was filed for registration of 60,000 shares of the common stock and up to 3,500 shares of preferred stock to be issued for the assets of General Insulating & Manufacturing Co. Financial position at the close of the year was strong with total current assets of $6,692,640 which included cash of $1,464,208, compared to total current liabilities of $1,637,824.

It is our belief that the future operations of National Gypsum Co. will be favorable and that the increasing trend of sales forecasting capacity operations should continue throughout the year 1941. Profit margins should continue favorable in view of the operating economies, while a high rate of output should tend to minimize the substantial increase in taxes and costs. It is our opinion therefore that National Gypsum stock does offer a speculative opportunity at this time. In view of the increasing trend in earnings it is quite possible, barring unforeseen difficulties, that dividend distributions may be increased during the year 1941 over the 40 cents paid in 1940.

International Paper & Power Co.

Can you help me come to a decision on IP? I now hold 75 shares—price paid 19¼, and am tempted to add to my holdings of this stock but have decided not to do so until I get your confirmation of its appreciation prospect. Is business for the Company holding at record levels attained last year? Are favorable prices for newsprint, kraft, etc., likely to hold throughout 1941? What is the present inventory position of the Company in terms of pulp and acids essential to production? Are Canadian pulp sources continuing to be easily accessible? Is the addition of Agar Manufacturing Company proving profitable? Have plans for refunding obligations finally been completed—and with what chances of receiving S E C approval? Considering all influences—do you anticipate a marked upmove for this stock from its present price of around 12 . . . given a favorable turn in the European situation? —M. R. R., Cleveland, Ohio.

In the year 1940 operations of International Paper & Power Co. produced phenomenal results. Production, sales and consolidated net profits during the year were the largest in the company's history, amounting to $15,696,577, as compared to $4,893,590 in 1939. This net income is equivalent to $16.95 per share on the 5% preferred stock, as compared with $5.29 in the year 1939. On the common stock it represented $6.07 and 14 cents per share, respectively. These large earnings are after local, state, Federal and foreign taxes of $10,620,466, equivalent to $11.47 a share on the outstanding preferred stock compared with 1939 taxes of $3,808,970. During the year approximately 19 per cent of tonnage sales were for export to countries outside of North America.

The capitalization of the company remains somewhat top heavy with funded debt at the close of the year of $57,571,280, which represents a reduction of $4,973,330 during the year. Of the amount outstanding at the close of 1940, $5,498,751 is considered and carried as a current liability, since $4,579,751 are 1941 maturities and $919,000 is to cover amounts required to meet sinking funds in 1941 in excess of the repurchased bonds on hand at the close of 1940. There was 925,935 shares of $100 par cumulative convertible 5% preferred stock and 1,823,270 shares of $15.00 par common stock outstanding. Net working capital during the year increased $4,608,357, while inventories expanded $5,157,779, or 20 per cent. Total current assets of $63,126,716 included $18,031,824 of cash (includes $5,556,588 of Canadian and other foreign companies in terms of U. S. Dollars), as compared with total curent liabilities of $22,913,032.

It has been the policy of the company to buy its pulp wood from outside producers whenever possible in order to conserve its own timber lands which approximate 26,000 square miles located in the North Atlantic states, the Southern Pine District and in Canada. This policy will, as long as pulp prices do not get out of hand, permit the company to maintain a heavy timberland reserve Newsprint paper is an important commodity from the standpoint of quantity consumed in this country, but it is the newer kraft paper that furnishes the best margin of profit, since it is made from timber that had been previously thought to be only suitable for fuel or destructive distillation in order to make rosin and turpentine. Kraft paper is sold to a large number of individual consumers and through

the eight kraft mills located in the Southern states this company has an annual production capacity of approximately 111,000 tons of bleached kraft paper and board, 283,000 tons of unbleached kraft paper and 736,000 tons of unbleached kraft paperboard.

From an earnings standpoint it would appear that as long as the Scandinavian countries are blockaded and their exports of pulp paper continue to be restricted, that earnings of paper companies in the Americas will continue highly satisfactory barring the unforecastable amount of taxes which may be charged against them. While operating costs will tend to increase, we do not expect any wide open break in paper prices during the year, although such would be possible if the war ended abruptly. In the meantime, however, it is quite likely that the company will be able to further cut down or refund on more favorable terms their funded debt, eliminate the balance of $10 per share accumulated unpaid preferred dividends as of March 31, 1941, but we do not think it likely that dividend payments will be made on the common stock in the year 1941. With all plants operating at high levels and with the addition of the Agar Mfg. Co. adding to the substantial profits of the company as a whole, we feel that the future is sufficiently optimistic to warrant retention of your current commitments in the common stock of this company. In fact, we would have no objections to one willing to assume the risk to add to their holdings when a favorable market policy is taken in the Magazine.

Corn Products Refining Co.

Do you consider it a wise move to add to my present 50 share investment of Corn Products at its present price of around 43? My present holdings cost me 63⅛. I wish you would answer this question from the following standpoints: (1) in view of the present and future price trends for raw cane sugar, (2) the market for its products in the chemical, textile, confectionery, stock and poultry trades, (3) loss of European business vs. potentialities of its South American markets, (4) elimination of competition from former imported products due to war and the scarcity of bottoms. Finally, can you tell me whether the spurt in sales earlier this year is continuing and the extent that this should mean in earnings in excess of the $3.10 for 1940? What is the Company's tax position—what reserves have been set aside for this purpose?—H. F. O., Lubbock, Texas.

For the quarter ended March 31, 1941, Corn Products Refining Co.

earned 81 cents per common share, as against 76 cents per share for the corresponding period of 1940. Earnings on the preferred shares were $10.16 and $9.61 for the same period, respectively. Net income for the year 1940 was $9,581,054 which, after providing for the regular dividend of 7% on the preferred stock, equalled $3.10 a share upon the outstanding common stock, as compared with $10,120,398, or $3.32 per share for the previous year. The total dividend income from foreign companies amounted to $1,993,339. Of this amount $1,328,628 was received from Europe and $664,711 from other foreign countries. Included in the dividends received from European companies was $498,607, which resulted from the sale of dividend credit earned in prior years, but not available on account of exchange restrictions. The latter item, however, is of a non-recurring type and is not expected to appear in 1941 results.

Taxes and depreciation charges for the first quarter of 1941 increased to $1,800,171 from $1,197,470 for the same period of 1940. Excess profits taxes not applicable in the first quarter of 1940 were figured to the extent of $100,000 in the first quarter of 1941. While provisions of the excess profits tax are still somewhat obscure the company has reserved an estimated amount of $160,000, which they believe will be sufficient to cover the liability. Estimated excess profits tax credit based on an average earnings base is $3.03 per share, while on an invested capital base the credit is approximately $2.64 per share. To become vulnerable to this tax it would appear that earnings would have to increase substantially over these amounts, but such figures do not take into consideration the ever-increasing burden of taxes in other ways which could be burdensome to this company.

The rising cost of corn, which in the past has approximated 60 per cent of production expense to this large company operating in thirteen foreign countries investments in which total approximately $24,000,000 of which about one-half are chiefly in England, France and Germany, adversely affects earnings. The advance in raw cane sugar prices is reported to be helping the business of the corn refining industry. The current price is running around 3.45 cents per pound, as compared with about 2.85 cents a year ago. The advance in the price of this commodity tends to place corn sugar in a better competitive position at this time. Corn starch, an important item in the company's operations, is also being favorably affected by the restriction of shipping facilities which tend to limit imports of competitive tapioca starch. Due to these restricted fundamental factors, prices have been advancing on tapioca which tends to make corn starch relatively cheaper, increasing sales of latter which are important to the company. It seems quite likely that sales in general will continue the improving trend which started in 1940, although it is not expected that any material improvement in net earnings will be witnessed, although first quarter earnings were a few cents higher than the comparable period of 1941. It is quite possible that the $3.00 annual dividend rate will be continued in view of the strong financial position of the company. It was reported that during the year reasearch efforts were intensified with gratifying results. Sales leadership has been maintained and fortified through a continuous quality improvement of products and their package construction and design. New products have been developed and are gradually being offered to the public with satisfactory results.

At the close of the year the financial statement of the company disclosed total current assets of $42,830,907, of which $26,115,318 was in cash, as compared with total current liabilities of $7,737,998. A reserve for contingencies of $200,000 was carried in the balance sheet at the close of 1940. Capital structure of the company is reasonable, represented by 7% cumulative preferred stock, par value $100, authorized and outstanding to the extent of 250,000 shares and 2,530,000 shares common stock with a par value of $25 per share. It is our opinion that war conditions have tended to adversely affect the immediate future for this company, but, in view of the general increase in business in our country and the possibility of increased shipments to South America with declining competitive factors for imports that the operations forecast sufficient stability to warrant retention of commitments at this time.

Interlake Iron Corp.

I am considering adding 100 shares at current prices to my present 150 holding of Interlake Iron purchased at 24½ on the premise that this Company is entering a boom stage for its business. Do your analysts agree with this opinion? Has production among the big steel producers reached a point where they will have to resort to the facilities of independent pig iron producers like Interlake to meet their requirements? Are earnings progressing now at levels higher than the 42c earned in 1940? What should the $1 advance in the price of pig iron mean to profits? What about labor costs—union difficulties? I would appreciate your opinion of the speculative appreciation prospects for this stock now.—S. S. Bridgeport, Conn.

For the first quarter of 1941 Interlake Iron Corporation showed a substantial increase in earnings to 38 cents per common share, as compared with a loss of 5 cents per share in the corresponding period of 1940. Sales during this first quarter, which ended March 31, 1941, were $9,067,137, as compared with $4,370,624 for the comparable period last year. For the fiscal year 1940, which ended on December 31st, the company reported earnings of 42 cents per common share, as compared with a loss of 28 cents for the year 1939. During the year the sum of $794,194 was expended in miscellaneous additions and betterments to the plant and equipment and the aggregate gross book value of property dismantled or sold during the year and credited to plant account was $125,127, which, after deducting salvage value, was charged to depreciation reserves. To improve the return from the sale of tar during the past year the company constructed a tar distillation plant at South Chicago at a cost of approximately $250,000. This should mean a new source of profit to the company, as it is the first step in the refinement of the by-products which have previously been sold in the raw state. At the close of the year it was reported that all blast furnaces and coke plants were operating at capacity with a backlog of orders amounting to approximately three months' production. As of March 31, 1941, it is reported that business is proceeding at the same high rate which prevailed at the end of the year and, regardless of many uncertainties inherent in present conditions, it appears that business is going to continue to be good for some months to come.

The capitalization of the company

is relatively simple with $6,639,000 4% convertible debentures due in 1947 and 2,000,000 shares of common stock without par value. The financial position at the close of the year was represented by total current assets of $14,707,199, which included cash of $3,839,785, as compared with total current liabilities of $1,422,685.

As the largest independent producer of pig iron, and incidentally of coke and its by-products as well, sales reached substantial figures during active years. Last year total gross sales amounted to $22,720,490, as compared with $17,022,424 in the year 1939. At the close of 1940, with all blast furnaces and coke plants operating at capacity, it would appear that the heavy rearmament program has increased to an extent in excess of the break-even point as is indicated in the improved first quarter results. With the increase of $1.00 a ton for the price of pig iron it appears that earnings of the company will be further aided. With operations in the steel industry at capacity levels and promising to remain there for some months to come, heavy demands are being made on the pig iron facilities of leading steel producers. This suggests the possibility that many of their outside customers are filling their pig iron requirements from independent producers such as Interlake Iron. While the company is a high-cost producer, it is felt that higher basic prices, coupled with an increasing rate of operation, will be of extreme importance in enhancing current earnings.

With the recent declaration of a 25-cent dividend it was stated that this payment should be regarded as "just a dividend." It is our belief, however, that with the increasing trend of earnings, accelerated operations in the steel industry as a whole with no perceptible let-up in sight, that earnings will warrant other distributions during the current year. It appears that under present tax laws Interlake has an excess profits tax exemption based on the invested capital option of approximately $1.91 per share. With earnings at the level of the first quarter of 1941 it would not appear to be vulnerable to such taxes at this time. We would not care to go so far as to say that the company is entering into a "boom stage," although we do feel that at current levels the stock does give a degree of speculative appeal and we counsel retention of your present holdings at this time. If additional purchases are contemplated, it would appear that in periods of market weakness such would be justified when the magazine takes a constructive attitude toward the market.

(*Continued on page* 156)

Congoleum-Nairn Co., Inc.

I am interested in your evaluation of Congoleum-Nairn selling around 15 and which paid a dividend of $1.25 last year. I have 75 shares of this stock purchased around 24 and should like to know whether you would counsel averaging at its current market price? Is it true that this Company is relatively immune to Excess Profits Taxes? Have sales begun to respond to the increase in consumer purchasing power resultant from defense spending? Are earnings this year likely to exceed the $1.70 per share earned in 1939? Have substitutes for such raw materials as cork and burlap, which formerly was imported, been developed to a point where savings should be reflected in lower costs and higher profit margins now? Is the Company's new low-priced Gold Seal Congoleum Superwear product proving a highly profitable source of income?—L. P., Boston, Mass.

Consolidated net income for Congoleum-Nairn, Inc., for the year ended December 31, 1940, after adequate provisions for reserves, amounted to $1,617,205, or $1.30 per share, as compared with $2,111,618, or $1.70 per share, for the year 1939. The financial position of the company remains strong and at the year end total current assets of $15,589,691, including cash of $2,889,994 and U. S. Government, State and Municipal securities at cost, less amortization of $2,440,608 (market value $2,577,879), compared with total current liabilities of $1,395,245, giving a ratio of approximately 11-to-1. The capitalization of the company is simple, since there is no funded debt or preferred stock outstanding. Common stock without par value is outstanding to the extent of 1,390,000 shares.

Research and development work is being carried on by the company and, together with the maintenance of plants at a high rate of efficiency, it has contributed to the stability of the business over a period of years. Selling prices of the company's products have not been advanced over the last year and, while the tendency is for lower price grades, such a trend is reflected in lower aggregate dollar sales. Increased raw material costs have been offset to a large extent by a higher efficiency of operations. The increase in value of inventories during the year was accounted for almost entirely by increasing quantities of finished goods and raw materials. The inventories of finished goods carried at prices which are below today's replacement costs, as well as raw materials on hand and commitments for future deliveries of raw materials, are at or below replacement costs today. A factor of primary importance to this company is its connection with imported raw materials, but the company has on hand in the United States substantial stocks of such commodities and, even though shipments from abroad are delayed and the cost may be higher, as a result of increased foreign prices, freight and insurance rates, supplies are currently being received in sufficient quantity to maintain the former position on these commodities. Cork and burlap, the principal imported raw materials no longer hold the essential position in the manufacturing of linoleum. For some time the industry has been producing practically all of its inlaid linoleum, which is the most important division, without cork, being produced through the use of other backing fabrics and burlap. In a recent statement by the company it is reported that neither cork nor burlap is used in the manufacture of Nairn Treadlite Linoleum, Nairn Wall Linoleum or the entire Congoleum Gold Seal line of products. Linseed oil is also important, but it is a product of flaxseed which the United States and Argentine grow extensively. It is expected in this connection that since domestic production has increased so rapidly that we will soon be on a self-sustaining basis. Inventories in this commodity for future deliveries insures a sufficient supply well into the future. It has been further reported by the company that the year 1941 began with orders at a substantially higher volume than last year, and that the outlook was one of increased business.

Congoleum-Nairn, Inc., is supplying the United States Government with increased quantities of its standard products in connection with the expanding defense program and it is believed that such business will continue unabated for the time being. The increased purchasing power throughout the country for the civilian population along with the desire to modernize private homes should be of an increasing benefit and bolster earnings which do not appear to be particularly vulnerable and, in fact, virtually immune from excess profits taxes at current proportions. Dividends are expected to continue approximately in line with 1940 distribution, although if earnings do regain 1939 proportions it is expected that, barring the necessity to set up contingency reserves, a more favorable distribution will be made toward the latter part of the year. While we are not recommending additional purchases of this stock at this time, we do feel that your current commitment should be retained for its good yield and worthwhile interest in an important link in our every-day life.

Common Stocks Selling to Yield 6 Per Cent or Better

(*Continued from page* 141)

to maintain the $2.30 dividend rate which yields 9.6 per cent at prevailing market prices for the shares. Earnings could drop to below $1.50 a share and—if they were all paid out in dividends—would still yield slightly better than 6 per cent on shares purchased at this time. The $2.30 rate has been maintained so far this year with an initial quarterly payment of 65 cents a share. What may be the result of future dividend meetings cannot be said, but should the current rate be continued, the high rate of return would more than justify the moderate risks involved in the present ownership of the shares.

Increased Labor Costs Broken Down by Industries

(*Continued from page* 139)

ways and buses 70.6 vs. 71.5; telephone and telegraph 102.9 vs. 96.9. Among the various service industries, dyeing and cleaning had a February, 1941, employment index of 74.3 vs. 64.4 for February, 1940; laundries 89.6 vs. 83.1 and year-round hotels 86.0 vs. 82.7. Total retail trade ran 84.0, as against 79.1, while wholesale trade was carried at 80.8, vs. 77.1. Most of the industries listed in this paragraph are likely to experience higher earnings this year than in 1940 by reason of volume being adequately increased to take care of increased labor and other costs; exceptions to this conclusion are tobacco, electric light and power, street railways and buses, and general retail trade.

Another Look At . . .

(*Continued from page* 147)

of $4,729,141. With collections good, the rather extended position of accounts receivable should cause no immediate concern. Cash items of $496,322 were higher than average and about 50 per cent greater than a year ago. Working capital of nearly $4,625,000 is adequate for the company's immediate needs—a current asset ratio is better than 2 to 1.

The longer term outlook is clouded by the fact that it may eventually be difficult to transact an installment sales business although it is also possible that should sales of the company's regular products be restricted by financing difficulties that increased defense business will offset, in great measure, the loss.

Texas Pacific Coal & Oil Company

First quarter operating results of this moderately large producer of crude petroleum indicated that the improved statistical position of the production end of the industry had found reflection in the company's earnings. It is true that the gain reported was quite modest—10 per cent over a year ago—but it was, nevertheless, a step in the proper direction. As an almost strictly crude oil producer, Texas Pacific Coal & Oil Co. is not faced with the many additional problems that are the lot of the more fully integrated company operating in the petroleum industry. And, by the same token, the company does not have the usual opportunity to overcome a difficulty in one division of the business by better results in some other department. However, with national defense likely to require increasingly large supplies of crude petroleum for later refining, those companies engaged solely in its production are currently in a more favorable position than others who will have to contend with excise taxes, restraint of trade suits and the many ills to which the petroleum refining business is heir.

Profit increase for the first quarter was not so much the result of increased sales—they were actually moderately lower this year—but rather because of better operation ratios and less need for high depreciation charges. No provisions were made in the current earnings statement for Federal taxes since the company maintains that when all of its statutory allowances and credits have been taken, no income or federal tax is payable. This seems to be borne out by the fact that despite net earnings which were equivalent to $1 a share in 1940, no tax was paid and previous year's taxes were only nominal sums.

Current market prices for the shares are moderate in view of the possibility that 1941 earnings may exceed last year's figures by a modest margin. The current dividend is relatively secure and offers a satisfactory return at present market prices for the shares. From a speculative standpoint, the shares hold only fair possibilities although their low price and the belief on the part of many investors that they offer a kind of hedge against money inflation may at some later date, result in a somewhat higher market appraisal. Present commitments might be retained until such time as a more attractive speculative opportunity presents itself but there is no apparent incentive to their immediate purchase.

A Complete Analysis of the 1941 Tax Program

(*Continued from page* 128)

by taxes, but besides the colossal amount of business these companies have on hand, they have had the excess profits tax strain eased to some extent by recently enacted amendments to the law. We show below the estimated excess profits tax exemption (on the 1940 basis, not on prospective 1941 changes) under the 1940 law and on this new basis of the amendments favoring growth companies through potential obtainment of concessions from the Bureau of Internal Revenue for income abnormalities. On these grounds, Consolidated Aircraft's latest exemption would run up to $2.40 a share, compared with the former basis of $1.25 a share; Curtiss-Wright would be 35 cents vs. 25 cents; Douglas $10.25 vs. $6.70; Grumman $1.65 vs. $0.80; Lockheed $2.50 vs. $1.50; Martin $3.50 vs.

$2.25; North American $1.85 vs. 65 cents; United $3.40 vs. $1.75.

Some of the machinery companies, too, would also be aided by the changes in the excess profits tax law. Thus, Ex-Cell-O's exemption would be raised to $1.90 from $1.40 and Monarch Machine Tool to $2.00 from $1.46. As indicated in the accompanying tabulation, however, the proposed 1941 taxes would have brought Bullard's 1940 earnings from $6.15 a share down to $4.20; Ex-Cell-O down to $3.35 from the $4.99 actual; Monarch down to $4.25 from the $5.63 actual and National Acme down to $3.15 from the $4.40 actual. The all-important consideration, of course, is that despite these heavy taxes, the uptrend in gross revenues is strong enough to carry net income to a new high. The strength of this uptrend is evident in comparing 1940 earnings with those of 1939, though the gain this year will be very much smaller: Bullard $6.15 a share vs. $1.04; Ex-Cell-O $4.99 vs. $2.21; Monarch $5.63 vs. $2.52 and National Acme $4.40 vs. $1.16.

To show further exactly what our line of reasoning is in having made the selections we did for earnings decreases in 1941, we will take another example, New York Shipbuilding. This company faces a sharp shrinkage in profit margin, but its total business on hand ($434,000,000) is almost ten times its gross billings for the year 1940, or enough for ten years of such activity as in the past year when the company earned $4.54 a share. Full capacity operations should produce big gains in gross over 1940 and some advance in earnings, also.

U. S. Steel, operating at capacity, too, is able to reach such a point of efficiency that much larger expenses can be withstood without great shock. On the 1941 tax proposals, U. S. Steel's earnings as reported for 1940 would have been about $7 a common share, rather than the $8.84 actually reported. On the 1940 tax basis, U. S. Steel's net income at present is running at the rate of about $13 a share annually. It is thus evident that taxes could be raised $4 a share without lowering 1940 net income; there is a possibility, accordingly, that the company may be able to report more than $9 a common share for 1941.

In all instances of companies we list as likely to show an earnings increase this year over 1940, we are counting heavily in our estimates on increased volume being large enough to more than offset higher taxes and other costs. Unfortunately for those companies included in the list of representative corporations likely to earn less in 1941 than in 1940, their increases in gross sales, in our estimation, may not be great enough to offset the larger tax increases and other costs in store for them this year. In many of these instances, excess profits tax exemptions are so low as to insure exceptionally burdensome tax aggregates this year.

Thus, American Can has an excess profits tax exemption (on the 1940 basis) of $5.30 a share on average earnings and $4.10 a share on the invested capital base, but it will be cut materially this year; tax changes alone such as may be forthcoming this year, would have cut 1940 net income to the equivalent of $4.90 a share. Considering this added cost, as well as other increased expenses, it is doubtful if the company can make up the difference through larger general business. To use another example, American Tobacco may very likely experience a rise of 5 to 10% in gross revenues for 1941 over 1940. But, its excess profits tax exemptions were only $4.44 a share on earnings and $3.35 on the invested capital base even on the 1940 law; this year's will be much more severe—too much so, in our estimation, to allow the company to reach its 1940 net earnings total.

Consolidated Edison, to demonstrate another type of company, will have its greatest sum-total business on record this year. But the increase in normal Federal corporate income will be enough of itself to depress earnings below the 1940 rate; moreover, should the Treasury proposal materialize to reduce excess profits tax exemptions on invested capital to 4% on values in excess of $20,000,000, the company would also incur a tax on excess profits, hitting earnings sharply. Many big utility companies would be severely injured on this basis, and comparisons with 1940 would be particularly unfavorable, in that most of them did not have to pay excess profits taxes last year. This year's proposed new taxes would have cut Consolidated Edison's 1940 earnings per common share to $1.90, vs. $2.22 actual.

Blue-chip Eastman Kodak, to show still another type, had an average earnings exemption of $7.54 a common share and an invested capital base exemption up to $5.90 a share last year; on the 1941 tax proposals, net income would have been cut in 1940 from the $7.96 actual to $6.75 a share. Even gross revenues may be somewhat restrained in growth this year, in view of defense program priorities' potential conflict with some company products. Nevertheless, such general business increase as does take place will be insufficient to make up for greater amounts taken by taxes.

National Distillers is a good example of the type of company affected on all fronts by tax barrages. Not only will the company have to pay a larger normal corporate tax as now proposed, but it may have to pay an excess profits tax, and, additionally, it will be affected to some extent from the consumer demand end, which will suffer from heavier excise taxes that the company passes on. Such parts of these excise taxes as are not passed on to the public simply will have to be absorbed by the company, representing so much more of an addition to the tax aggregate. Thus, in spite of the fair setup which the company had under the 1940 excess profits tax arrangement (average earnings credit up to $3.54 a share and invested capital credit around $2 a share), the new state of tax affairs points to a sharp drop in earnings for this year.

The Finance Companies: War Casualty No. 2

(Continued from page 145)

duce the net income available to the stockholders of the finance companies. Actually, after deducting all charges including reserves for bad debts, fraud losses and other contingencies, the net profit of most finance charges is surprisingly low. In the case of a typical finance company, approximately 82 per cent of the gross profit was absorbed by wages, interest and bank charges, promotional activities, auditing and the normal expenses of conducting a business of any sort. Of the remaining 18 per cent, nearly all was allocated to the necessary reserves mentioned above, leaving less than 1/2 of

1 per cent for dividends. A sharp increase in any of the expense items, such as a raise in bank interest rates and higher corporate taxes, would be sufficient to eliminate the dividend surplus unless it would be possible to charge more for the services rendered and at the same time reduce other expenses. Neither course is desirable for higher charges would further discourage borrowers, while it is not possible sharply to pare finance company wages which even at this time are not on a very high scale. From here it would seem as if it would be the stockholder who will have to shoulder the largest part of the burden by foregoing at least some part of his income from his finance company investments.

No discussion of finance companies would be complete without some reference to the small loan companies whose number multiplied phenomenally during the depression. These differ in many ways from the installment payment finance companies and the major difference is that the small loan companies' volume of business increases considerably as consumer incomes decline. In fact, it is said by the small loan companies, that their business does not constitute an increase in the public's debt since the greater part of their loans are made to consolidate previously incurred indebtedness.

Whether or not their position in the modern economy is justified is beside the point. The companies are faced with much the same problems as the installment paper companies and to them are added several which are peculiar to the small loan business. Obviously, when consumer incomes are rising there is a decreasing need of the service rendered by the small loan people. Incomes are advancing so it is probable that the volume of small loans is declining. Banks have found small personal loans to be highly profitable and many are in the business in a big way. The banks select only the very best risks and then make loans at well below the statutory rates. Thus, those with the highest credit ratings are attracted to the banks, leaving the more questionable risks to the other companies. Small loan companies must charge high rates for there is a vast amount of investigation and other procedure necessary to prevent the assumption of undue risks. In fact, despite the average charge of about 27 per cent per annum for small loans, less than 6 per cent is net to the creditors.

The apparent high charge for small loans is the target for "popular" legislation for it might appeal to the "under-privileged," the stand-by of the politician. Accordingly, legislation has been enacted in many states which limits loan charges to a point where it is only possible to do business on a very small profit, if at all. This, of course, encourages illicit loans and the accompanying abuses, for the loan companies who stay in business are forced to be more than strict in their security requirements and thus reduce business volume. Taxes, heavier state and city license fees, higher cost of borrowed working capital, restricted loan volumes and declining profits are for the present, at least, the lot of the small loan companies. That earnings will also suffer is a foregone conclusion.

Industrial Earnings in the Second Quarter

(*Continued from page* 136)

Aside from the preceding few of the more interesting examples of quarterly earnings reports, it is interesting to observe that all reports at hand, exceeding 350, average an approximate 17% rise in net income over the first quarter of 1940. In addition to the petroleum group, a few other industries experienced substantial declines in net. These include tobacco—off 5%; chemicals—off 6%; medicines and drugs—off 3%; paper—off 15%; retail trade—off 9%; soaps—off 5%; baking—off 12%, and utilities—off 1%. Some of the more outstanding gains include: auto accessories, 30%; building materials, 85%; coal, 25%; electrical equipment, 10%; food, 10%; industrial machinery, 35%; metals and metal fabricating, 45%; office equipment, 16%; steel and iron, 100%, and railroads, 175%.

The phenomenal showing by the railroads was made possible by the large increase in their gross business (about 25% over last year) and the fact that they are relatively exempt from excess profits taxes because of their large invested capital bases. There are certain reservations on earnings potentialities of this group as well as a number of others which hinge on the provisions of the new tax law. This is of such exceptional importance in all earnings forecasts and interpretations that we are presenting to our readers a feature article in this issue which broadly covers the coming tax program. For a clearer earnings perspective, we suggest that the reader also study this tax article. For additional pertinent data regarding deductions from earnings, the reader may find interesting our article in this issue on labor costs broken down by industries.

In conclusion, by no means do we feel that the earnings trends indicated by first quarter reports will continue with any substantial degree of uniformity. Material, labor and tax factors considered, it is our judgment that industries which will do better in the second quarter and the full year than in 1940 are the following: aircraft manufacturing, air lines, building and building materials (heavy work, including dredging, military bases, plant construction, etc.), chemicals, bituminous coal, heavy electrical equipment, industrial machinery, machine tools, railroads, railroad equipment, metal fabricating, non-ferrous metals, shipbuilding, steel, trailers and trucks. Certain indirect war-economy beneficiaries, such as meat packing, oil and sugar, also may make a fairly good showing. Among the industries likely to earn less this year than in 1940 are utilities, automobiles, tobacco, foods, cosmetics, metal containers, gold mining, medicines and drugs, household products, shoes, beverages, soaps, chain stores, department stores and mail order.

For Profit and Income

(*Continued from page* 143)

point for volume, amounting to $1,842,811,000 and 116 per cent higher than a year ago. In the four months' figures, only state and municipal construction continued to lag below the figures of a year ago. The greatest gains were in the New England States where an increase of 185 per cent was reported, and the least gains were experienced in the area west of the Mississippi.

If the Nazis Control Britain's Latin-American Investments

(*Continued from page* 131)

to expand the trade between the United States and Latin America have favored this country. During 1940, our exports to Latin America reached $727,000,000, increasing $233,000,000 over 1938, while our imports rose to $620,000,000, or $166,000,000 over 1938. Thus our imports have already replaced about a third of the $500,000,000 that was roughly the value of Latin American exports to Continental Europe in the last pre-war year. On the other hand, the balance adverse to Latin America in the trade with us increased from about $41,000,000 in 1938 to $106,000,000 in 1940, causing serious shortages in dollar exchange, particularly in the last quarter of 1940.

But there has been lately a spectacular upswing in the United States imports from Latin America. Running at the annual rate of over $800,000,000 in the last three months. these imports promise to make up, if they continue, another third of Latin America's lost Continental trade. The change has been due to our heavier purchases of hides and wool from Argentina and Uruguay, coffee from Brazil and non-ferrous metals from Chile, Peru, Bolivia and Mexico, reflecting both our national defense needs and the increased purchasing power.

The highest percentage rise since the start of the war appears to have taken place in our trade with the southernmost republics, Brazil, Argentina, Chile, Paraguay and Uruguay, all of which gravitated economically toward the Continent before the war. The gain is relatively smallest in the trade with Central American and Caribbean nations, whose economic ties with us were already close and whose trade has been relatively little affected by the war in Europe.

As regards the intensification of inter-Latin American trade, the deficiency of transport facilities—the remedy of which will take time and money — continues to remain the chief obstacle. For one, the shortage of cargo space has in recent months retarded the movement of goods among various Latin American countries, in which exchange of goods Brazil has been leading.

Industrial Variations Under War Conditions

(*Continued from page* 123)

has been as strong as the general market since April, 1940.

The meat packing issues dropped from 109.6 in March, 1937, to 36.5 in March, 1938, and then enjoyed a series of rallies, with the 1939 figure of 65.5 substantially bettering the November, 1938, figure of 54.1. Each subsequent rally has diminished in intensity, and the May 3 figure of 40.7 was lower than the 42.1 bottom of June, 1940.

The paper group has been a leading war beneficiary. After reaching 5.8 in March, 1938, from the recovery top of 26.5, these issues climbed to 12.6 in November of that year, 13.9 in 1939 and 17.1 in April, 1940. Since then the rallies have been short-lived and the February reaction to 11.0 penetrated the 11.8 level of June, 1940. The figure for May 3 was 11.9.

It is only since November, 1940, that the petroleum group has shown greater strength than the general market. Starting at 158.8 in March, 1937, these issues made their lowest bottom at 63.1 in June, 1940, rallied to 74.3 in November, declined to 67.4 in February, recovered to 75.5 in April and on May 3 were at 77.3.

The railroad equipment industry plunged from 112.9 in March, 1937, to 28.2 in March, 1938, its October, 1939, rally to 65.1 surpassed the 1938 rise to 52.4, and, although subsequent rallies have stopped well below the 1938 rise, the May 3 figure of 37.7 was still above the 34.3 and 33.7 levels of June, 1940, and April, 1939.

The swings in the railroad stocks have paralleled the general market to a certain extent. The highest point was 48.6 in March, 1937; the lowest was 10.8 in March, 1938. The 1939 rally surpassed that of 1938, reaching 20.5 against 17.7. In November, 1940, the group stood at 9.7; it then reacted to 7.5 in February, rallied to 9.1 in April, and on May 3 stood at 8.7. Recent action has been better than that of the general market, due largely to the demand for certain railroads.

The shipbuilding group and the steel-iron stocks have been outstanding war favorites, but their market action has been quite different. The former really got under way with the outbreak of the war, but its action had been impressive even before that time; thus, it made a preliminary bottom at 36.5 in October, 1937, and a final bottom at 36.1 in March, 1938. During 1939 this group at 85.0 substantially bettered the 1938 rally of 69.9 and was almost even with the March, 1937, figure of 87.6; in April, 1940, it reached 108.0, and made 121.6 in January, 1941; on May 3 it stood at 108.6. The steel group plunged from 165.6 in March, 1937, to 55.8 in March, 1938, and rallied in two successively higher waves to 105.6 in September, 1939, but the rally to April, 1940, stopped at 84.1, dropping to 59.6 in June; the rally to November was vigorous, reaching 91.8, but the group has been outstandingly weak since then and on May 3 stood at 64.5.

The tire and rubber equities fell from 29.2 in 1937 to 10.3 in March, 1938, rallied strongly to 20.1 in November, and again experienced a series of downturns culminating at 8.4 in June, 1940. Once again the group is doing better than the market, the April figure of 11.2 duplicating the November level, and the May 3 price of 10.2 showing resistance.

The tobacco group has been erratic. The April, 1940, price of 89.9 was well above the rallies to 84.1 in 1938 and 81.7 in 1939, and compared with the 1937 crest of 99.4.

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